PEG Report #31

Status of the WTO Services and Agriculture Negotiations: Implications for Indonesia – Summary of Findings and Final Report

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1. WTO Services Negotiations: GATS 2000
2. WTO Agricultural Negotiations

I. Introduction

The WTO Council decided in February 2000 to proceed with the launching of negotiations on services and agriculture, despite the fact that WTO ministers had been unable to agree on the agenda for a comprehensive round of new multilateral trade negotiations in Seattle last November. Negotiations in these two areas were part of the built-in agenda that had been agreed to at the conclusion of the last comprehensive round of multilateral negotiations, the Uruguay Round, in 1995.

In recent months, developing countries have placed considerable attention on (1) their inability to take advantage of the trade opportunities created by past trade agreements; (2) their difficulty in implementing past trade agreements; and (3) the belief that developed countries have not fully lived up to past promises. As the preparation phase of the services and agriculture negotiations come to a close, and as the actual negotiations are set to begin, Indonesia must prepare to negotiate issues of importance so that its interests in internationally traded services and agricultural products are advanced. The attached papers on services and agriculture will help Indonesia in its preparation.

II. Purpose and Background

The Ministry of Industry and Trade (MoIT) identified two broad tasks to be completed during this assignment.

1. To prepare two papers that detail the status of the WTO negotiations – one paper on services and one paper on agriculture.
2. To provide analysis and recommendations into the areas where MoIT might focus resources to prepare for the services and agriculture negotiations in the WTO.

In response to MoITs request, two papers were developed. Each paper is designed to help prepare MoIT identify issues of importance for the WTO services and agricultural negotiations. Each paper is intended to assist MoIT in clarifying its role in trade policy determination, coordination of trade policy within the Government of Indonesia, and institutional capacity to conduct trade negotiations. This paper is also intended to provide the necessary background and recommendations to help build MoITs institutional technical abilities to conduct trade negotiations with emerging major world trading partners.

III. Overview of the WTO Services Negotiations

The negotiations in services are both about reform of domestic regulations in services and the reduction of protection to increased foreign investment and trade in services. The regulation of many services involves excessive amounts of government intervention in decisions concerning the types of services that can be sold, the prices at which they can be sold, how they can be produced and by whom. These regulations are usually motivated by a desire to protect consumers, but usually result in reducing consumer choice and increasing consumer prices. They also tend to saddle manufacturers with excessive costs for service inputs, which tend to make them less competitive internationally.

The solution to the excessive cost and rigidity of traditional regulatory mechanisms is not to abandon government regulations designed to help assure a reliable supply of services, but to move from direct intervention in production decisions to the establishment of regulations based on objective performance criteria. Such performance requirements need to be closely tied to the desired social objective, e.g. the desired quality of assets maintained by financial firms, the professional qualifications of professional service providers, and the access provided by network operators to competitive suppliers of infrastructure services. Regulation based on objective performance criteria is not only more economically efficient by allowing for more competition and preserving the signaling function of market prices, but it is also less prone to bribery and corruption because it reduces the extent to which regulatory officials make discretionary decisions.

As in agriculture, negotiations on domestic policy reforms in services are linked to trade liberalization, but do not necessarily result in the removal of trade barriers. Negotiations aimed at the removal of such barriers thus constitute a second track in the negotiations. In many countries the relationship between internal and external liberalization is a hotly debated issue. The rationale for keeping the two processes parallel is that external liberalization can assist the process of domestic institutional capacity building. Foreign investors provide institutional knowledge as well as professional skills that they can pass on to local employees, local competitors, and local regulators. As in the case of agriculture, USAID could undoubtedly offer useful insights into the discussion of the optimal mix of internal and external liberalization in particular countries.

Indonesia's Interests in Services

Indonesia's interests tourism, construction, maritime, movement of natural persons are fairly similar to the interests of other developing countries, and the efforts of other developing countries may well take care of many of Indonesia's interests. However, it is important for Indonesia to be aware of the status of WTO Services negotiations and the interests of other countries so that Indonesia will be prepared to negotiate and advance its interests.

Movement of natural persons is important to Indonesia because by expanding quotas and areas in which visas can be assigned, especially visas for training assignments, Indonesia will be able to send more citizens to developed countries to participate in training and work activities.

The construction sector carries particular importance for Indonesia because of its link to the development of basic infrastructure, training of local personnel, transfers of technologies, and improved access to information channels. In addition, since Indonesia has experience and has a comparative advantage in labor-intensive construction services, increased commitments in this sector will enable companies from Indonesia to engage in construction activities in other countries as well as enable construction companies from other countries help build modern infrastructure in Indonesia.

For maritime services, liberalization in this sector would lead to increased competition that would reduce prices for importing countries, enhance the competitiveness of exporting countries and increase the ability of Indonesia to improve it's maritime shipping industry.

And for tourism services, if Indonesia was able to successfully negotiate additional commitments, such as the ability to address anti-competitive behavior by developed countries (e.g., vertical and horizontal arrangements), Indonesia would be able to keep a greater share of value added in the provision of tourism services.

Emergency Safeguard Measures (ESMs) also are an important area for Indonesia. ESMs provide governments with a legal right to withdraw commitments temporarily if a surge of imports threatens to injure domestic service industries. It will important for Indonesia to ensure that stricter criteria not be imposed on the use of ESMs.

With respect to the method of negotiating national commitments, a request offer approach would provide Indonesia with greater flexibility than a horizontal approach. A request-offer approach would allow Indonesia the flexibility to negotiate only those sectors that have the greatest commercial interest for Indonesia while leaving more sensitive sectors out of any negotiations. A horizontal approach, on the other hand, would require Indonesia to bind *all* sectors, subject to exceptions, across any or all modes of delivering services (cross border, national presence, consumption abroad, movement of natural persons). A horizontal approach may require Indonesia to make commitments in sectors that are sensitive to Indonesia, unless Indonesia was able to negotiate exceptions.

Finally, Indonesia will want to consider if this round of services negotiations be a single undertaking (where all issues and sectors will be negotiated concurrently and conclude at the same time) or whether sectors would be negotiated individually (where each issue or sector is negotiated and concluded separately). Indonesia has stated that it prefers a single undertaking. Although Indonesia has proposed that the new Round be a “single undertaking” in which numerous issues and sectors are negotiated concurrently in order to maximize the opportunities for trade-off across issues and sectors, Indonesia will want to resist incorporating too many sectors and issues into a “single undertaking” because of their limited capacity to adequately negotiate such an expansive range of issues.

With respect to sectors/functional areas of specific interest to Indonesia, Indonesia still needs to identify the areas where Indonesia would have particular interests/concerns. To identify these areas, MoIT should begin a dialogue with private sector service industries as well as an inter-ministerial dialogue on services-related policies. In addition to a dialogue, Indonesia should being to collect additional services-related trade data.

IV. Overview of the WTO Agricultural Negotiations

Agricultural policies are a source of economic distortion in most countries, whether they are developing countries or developed countries. The agricultural reforms initiated in the Uruguay Round were designed to gradually remove distortions introduced by the tendency of most countries to support farm income by raising prices of farm goods through import protection, production controls, government stockpiling, and export subsidies. Countries are instead encouraged to support farm income through various direct payments to farmers that are not linked to the volume of production. This is a superior approach from the point of view of economic efficiency because it removes the artificial incentives for inefficient levels and methods of land cultivation and restores the role of market prices in signaling to farmers what they should grow and how they should grow it. Development assistance can help the agriculture ministries in these countries to fashion appropriate policy reforms.

These shifts in farm programs inevitably incur adjustment costs and development assistance can play an important role in helping farmers to identify the new options and to make the necessary adjustments. This area of activity fits well into the rural development assistance component of many country aid programs.

Aside from addressing the issue of the optimal method of supporting farm income, trade negotiations focus on reducing the level of protection for farm production. These negotiations raise important trade-offs for most developing countries. On one hand, these countries will benefit from the lower food prices and increased farm productivity that can come from reduced protection in agriculture. On the other hand, the rapid migration of farm labor to urban areas can increase urban unemployment and strain already weak urban infrastructures. The pace of liberalization in agricultural trade thus has to be paced to the creation of alternative jobs (in either the urban or rural areas) and the expansion of urban infrastructure. USAID is in an ideal position to provide insights into the capacity of individual countries to make these adjustments and to develop programs to facilitate the adjustment.

An example of USAID Programs Related to Trade and Agriculture is the Agricultural Biotechnology Support Program (ABSP), implemented by Michigan State University and other partners. This program is designed create a favorable policy environment for investment and commercialization of bio-engineered agricultural products. ABSP supported efforts in Costa Rica, Morocco, Indonesia and Kenya to develop and implement intellectual property rights legislation. USAID also has provided technical assistance and training for national and institutional policy development in biosafety and intellectual property in cooperation with the U.S. Department of Agriculture (USDA) and Stanford Law School.

Indonesia's Interests in Agriculture

The negotiating agenda set-forth by the AoA will be based on three reform pillars that are part of the built-in agenda: (1) domestic support, (2) export competition, and (3) market access. In addition to the three reform pillars, negotiating proposals are calling for the inclusion of “non-trade concerns” (NTCs). NTCs refer to issues such as the social and environmental benefits of agricultural production, food security, biotechnology, and product and labor standards. All of these issues will be of importance for Indonesia.

Indonesia will likely adhere to the proposals put forward by the Cairns Group. This group of non-subsidizing, agricultural exporting countries was formed in 1986 to ensure agriculture liberalization in the Uruguay Round proceed expeditiously. The Cairns Group is pushing for the following reforms: early and total elimination of export subsidies; regulation of export credits; deep cuts in tariffs; removal of non-trade barriers (NTBs); increase of trade volume under tariff rate quotas (TRQs) and reducing the over-quota tariff rates; elimination of trade distorting domestic support measures; tightening of sanitary and phytosanitary (SPS) rules; removal of the "blue box"; tightening of "green box" criteria to ensure that they are truly non-trade distorting; phasing out of the special safeguard mechanism (SSM); and reformulation of the rules on state trading enterprises (STEs). The Cairns Group also recognizes that developing countries, including LDCs and net food importing developing countries (NFIDCs) have particular non-trade concerns including rural development, poverty alleviation, subsistence and small scale farming, and food security concerns. The Cairns

Group will therefore be committed to ensuring that special and differential (S&D) provisions enable developing countries to have enough flexibility to pursue their development needs. The Cairns Group will support enhancing green box provisions for developing countries, differentiating AMS formula and commitments for developing countries, and enhanced technical assistance to developing countries.

Indonesia interests would also be served best by proposing that the new round of agricultural negotiations be a single undertaking in which numerous issues are negotiated concurrently in order to maximize the opportunities for trade-off across issues and sectors. This will, in turn, will enable liberalizing forces in both developed and developing countries to exert pressure on their governments for a liberalized trade environment. However, it is cautioned that the new Round not contain too many new issue areas as this may constrain the ability of Indonesia to implement meaningful changes.

V. Recommendations for USAID

The United States has supported economic development in less developed countries through economic assistance programs and through trade policies benefiting developing countries. In fact, it has become increasingly clear that both development assistance and opportunities for trade are necessary for achieving a high rate of growth. Inward looking development strategies have not been as successful as outward looking, export-oriented development strategies. Countries that have expanded their trade have prospered, while countries that followed import-substitution and highly protectionist policies have stagnated. At the same time, development assistance can play a crucial role in helping countries to develop the infrastructure and institutional capacity needed to participate effectively in global trade and investment.

U.S. trade policy recognizes that policies and measures that enhance the trade of developing countries on a market-oriented basis ultimately create commercial benefits for the United States. The United States has therefore adopted various trade measures such as the Generalized System of Preferences (GSP) and the African Growth and Opportunity Act (AGOA) to encourage imports from developing countries. It has become increasingly clear, however, that the removal of market access barriers in other markets is not enough to generate trade. Developing countries also need the institutional and human resource capacity to meet the regulatory and product performance standards required for global trade and to negotiate effective agreements on the broad range of issues covered by trade negotiations. Moreover, without an adequate institutional capacity to administer trade agreements, developing countries have great difficulty in implementing the agreements they negotiate, negating the benefits of such agreements for the United States. The need for technical assistance targeted at institutional capacity building in trade has been increasingly recognized by both the international trade community, which has developed mechanisms for delivering such assistance, and the economic development community, which has developed economic development projects targeted at trade-related needs.

The lack of institutional capacity to take advantage of market access opportunities created by trade liberalization agreements is probably at the source of a major gap in perceptions between developing and developed countries. Developed countries feel that they have removed many more trade barriers than developing countries and that the global trading system on balance therefore favors developing countries. Developing countries point to their small share of global trade and the limited export gains following major trade negotiations, and therefore argue that the system is skewed against them. This is currently a major point of contention between the two groups of countries in the WTO.

To summarize, trade is essential but not sufficient for economic growth. In order to trade countries must have the institutional capacity to engage in trade and to participate effectively in the global trading system. For many developing countries, economic development assistance can play an important role in developing the required institutional capacity in trade. Therefore, for the current round of services and agricultural negotiations, USAID/Jakarta should consider the following recommendations:

1. Support continued services-related and agriculture-related training courses for MoIT and other Ministries through the end of 2001;
2. Assist MoIT initiate a public-private sector dialogue on services and agriculture to identify priorities to be advanced or upheld during the negotiations;
3. Assist MoIT initiate inter-ministerial dialogue on services and agriculture to identify policies that need to be advanced or upheld during the negotiations;
4. Assist the Government of Indonesia increase data collection on services and agriculture trade in Indonesia to support negotiating positions during the services and agricultural negotiations;
5. More broadly and in the long run, increase training in commercial diplomacy and international trade to support strengthening the trade-related institutions in Indonesia.
6. Continue development assistance programs aimed at increasing agricultural efficiency in order to facilitate trade liberalization initiatives (i.e., helping farmers exploit comparative advantages through dissemination of new techniques and technology; helping farmers switch crops or move out of agriculture and into other higher-wage sectors; helping farmers meet global SPS norms, etc).
7. Continue development assistance programs that will assist in liberalization and regulatory reform in services (i.e., methods of governance, public administration, corruption, the functioning of domestic institutions, etc.).

Attachment 1

Discussion Paper

WTO Services Negotiations: GATS 2000

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WTO Services Negotiations: GATS 2000

In February 2000, Members of the World Trade Organization (WTO) launched negotiations on global trade in services. These negotiations are extremely important since many services are not covered by the General Agreement on Trade in Services (GATS), yet total trade in services amounts to $1.3 trillion, or 25% of the trade in goods. The services negotiations will be conducted in Special Sessions of the Council for Trade in Services, which has held six formal meetings in since the launch of negotiations in February. Thus far, thirteen countries have submitted their positions on how negotiations should proceed and the topics that should be negotiated. The negotiations will be organized in two phases. During the first phase, negotiators are working on solidifying a framework for the negotiations that is expected to be completed by March 2001. The second phase will consist of the actual negotiations, including filling out the general framework of rules, expanding national schedules of commitments to provide national treatment and market access for particular services, and negotiating sectoral and functional agreements which include both a set of model commitments and rules for particular sectors (the annexes). The negotiations are expected to conclude by December 2002.

BACKGROUND

The GATS has three legally binding parts: (1) the general framework of rules; (2) the schedules of commitments of each country; and (3) the annexes to the general framework of rules.

(1) The General Framework of Rules calls for parties to observe 14 general obligations and disciplines applicable to international trade in services. These obligations and disciplines are basic rules that apply to all Members and, for the most part, all services and include (for a more complete list, see Figure 1):

- ***Negotiation of Specific Commitments (Article XIX) -*** Calls for Members to enter into successive rounds of negotiations to identify and eliminate domestic regulations that restrict trade;
- ***Schedules of Specific Commitments (Article XX) -*** Requires that Members set out and bind the results of the negotiations on specific commitments in national schedules;
- ***Most Favored Nation (MFN) treatment (Article II) -*** Requires that the resulting commitments apply equally to all services and service providers from other member countries (except exemptions that are specifically listed and agreed upon by Members);
- ***Market Access (Article XVI) -*** Establishes a legal framework for negotiating regulations that a Member may wish to impose that restricts the ability of foreign services or services providers to engage in business in the territory of a WTO Member country. Agreement was reached on six measures that in principle are prohibited. These consist of limitations on (i) the number of service suppliers allowed, (ii) the value of transactions or assets, (iii) the total quantity of service output, (iv) the number of natural persons that can be employed, (v) the type of legal entity through which a service supplier is permitted to supply a service, and (vi) participation of foreign capital in terms of a maximum percentage limit of foreign share holding.

- ***National Treatment (Article XVII) -*** As with the market access article, the national treatment article does not prevent national governments from imposing regulations that limit national treatment. It merely establishes a legal framework for negotiating any regulations that a Member may wish to impose that restricts national treatment.

- ***Regulatory Transparency (Article III) -*** Requires that regulations that impede the free flow of services trade be made transparent to all parties.

(2) National schedules shape each Member's services commitments to admit foreign suppliers of services to its market. National schedules enumerate the sectors and policy areas where countries are prepared to commit themselves. For each sectors listed in the national schedules, any exceptions with respect to either national treatment and market access and any additional commitments beyond national treatment and market access (e.g., recognition of qualification and additional commitments on particular service sectors, policies, and derogations from MFN treatment) are also listed on the schedules. In the GATS, unlike in the GATT, national treatment and market access are completely separate commitments and are not tied to each other. If a country does not take a national treatment exception in a sector inscribed in its schedule, it is bound to provide national treatment even if it took a market access exception. National treatment and market access obligations can pertain to any or all of the following four modes of supply:

- ***Mode One, Cross-Border Movement of Services,*** whereby a service provider transports a service across a national border;

- ***Mode Two, Consumption Abroad,*** whereby a consumer travels across national borders to consume a service;

- ***Mode Three, Commercial Presence,*** whereby a service provider establishes a foreign-based entity in the country where the service is to be provided; and

- ***Mode Four, Movement of natural persons,*** whereby an individual travels to another country in order to deliver a service.

(3) Members also negotiated sector-specific annexes to the GATS. These annexes set out rules for particular sectors (e.g., telecommunications) or policy instruments (e.g., visas for temporary service providers). Of the eight annexes attached to the GATS, the annex on Article II MFN exemptions may be the most important. This annex allows countries to list MFN exemptions in their national schedules[1]. Seventy countries have submitted lists of derogations from the MFN principle. These lists are up for review during GATS 2000 to analyze if the derogations can still be maintained. Other annexes and ministerial decisions specify certain industries for further negotiations, establish the modalities for future negotiations, establish future work programs, and set timetables for concluding negotiations rolled over from the Uruguay Round.

[1] The duration of these exemptions may not exceed 10 years and must be reviewed within 5 years.

Figure 1. Components of the General Agreement on Trade in Services (GATS)

GATS

Framework of Rules

Contains general obligations conducive to international trade in services, including:

- Most-Favored-Nation treatment
- Transparency
- Increasing participation of developing countries
- Economic integration
- Domestic regulation
- Recognition
- Monopolies and exclusive service suppliers
- Business practices
- Emergency safeguard measures
- Payments and transfers
- Restrictions to safeguard the balance of payments
- Government procurement
- General exceptions
- Subsidies

National Schedules of Commitments

Submitted by each of 123 signatory countries. The schedules contain commitments regarding restrictions and limitations to market access and national treatment. Schedules typically comprise:

- Cross-industry commitments
- Industry-specific commitments with respect to 4 modes of supply:
  (1) cross-border supply
  (2) consumption abroad
  (3) commercial presence
  (4) presence of natural persons
- MFN exemptions (optional)

Annexes and Ministerial Decisions

Provide information regarding on-going negotiations and rights to temporary MFN exemptions, including:

- Annex on MFN exemptions
- Annex on movement of natural persons supplying services under the Agreement
- Annex on financial services
- Second annex on financial services
- Annex on negotiations on maritime transport services
- Annex on telecommunications
- Annex on negotiations on basic telecommunications
- Decision on Institutional Arrangements for the GATS
- Decision on Certain Dispute Settlement Procedures for the GATS
- Decision on Trade in Services and the Environment
- Decision on Negotiations on Movement of Natural Persons
- Decision on Financial Services
- Decision on Negotiations on Maritime Transport Services
- Decision on Negotiations on Basic Telecommunications
- Decision on Professional Services
- Understanding on Commitments in Financial Services

CONTENT AND STRUCTURE OF THE GATS 2000 NEGOTIATIONS

The GATS 2000 negotiations are mandated by Article XIX of the General Agreement on Trade in Services (GATS), which calls for Members to enter into successive rounds of negotiation to reduce or eliminate measures that adversely affect trade in services. Thus far, thirteen countries have submitted their positions on how negotiations should proceed and the topics that should be negotiated. The negotiations will be organized in two phases. The first phase is expected to end in March 2001 and will cover the technical aspects of the negotiations. The second phase will comprise substantive negotiations on the GATS, including negotiations on the general framework of rules, national schedules, and the annexes (subject to those issues agreed upon during the first phase). According to the submissions received thus far, the first phase of the negotiations will decide the objectives of the negotiations as well as the issues and topics that will be negotiated.

Objectives of the Negotiations

During the first phase of the negotiations, Members are trying to reach consensus on the objectives of the negotiations. Thus far, Members have only reached consensus on the need for additional statistical data on services trade in order to facilitate the negotiations. Additional objectives of the Members that have submitted proposals are summarized below:

- Ensuring progressive liberalization of services and improving the general level of specific commitments (Argentina, Australia, Chile, New Zealand, Hong Kong, Indonesia, Singapore, EC, and Japan)
- Improving market access (Australia, Chile, New Zealand, Hong Kong, Indonesia, Singapore, Turkey, and U.S.)
- Promoting flexibility for developing countries as they find ways to expand their exports of services (Argentina, Australia, Indonesia, Singapore, Japan, Switzerland, Venezuela, Uruguay)
- Promoting transparency (Argentina, Australia, Chile, New Zealand, Indonesia, Singapore, Norway, Venezuela)
- Achieving an overall balance of rights and obligations (all countries that submitted proposals)
- Increasing participation of developing countries (all countries that submitted proposals)

Issues and Topics for Negotiation

Many of the issues mandated for negotiation, as well as those proposed by Members, include filling out the general framework of rules, expanding national commitments to provide national treatment and market access for particular services, and negotiating annexes that cover specific service sectors as well as functional policy instruments that affect trade in services. The issues to be negotiated fall into three categories: on-going activities, expansion of sectors covered by GATS, and additional topics for negotiations. Table 1 provides an overview of the issues and the Members that tabled them in the WTO.

Table 1. GATS 2000 Issues

Issue/Topic	Interested Members
On-Going Activities	
Financial Services	U.S., EU, Brazil, Japan, Grandfathering (Brazil; Hong Kong, China; Indonesia; Malaysia; Pakistan; Philippines; and Thailand)
Telecommunications	U.S., EU, Japan (70 Members have already made commitments)
Movement of Natural Persons	India, Egypt, Pakistan, US
Resume Maritime Transport Negotiations	EC, Hong Kong, Japan, Switzerland
Emergency Safeguard Measures	Argentina, Australia, Egypt, EC, Hong Kong, Indonesia, Jamaica, Japan, Kenya, Pakistan, Singapore, Sri Lanka, Switzerland, Tanzania, Turkey, Uganda, Uruguay, Zambia, Zimbabwe
Government Procurement	Argentina, Australia, EC, Hong Kong, Indonesia, Singapore, Switzerland, Turkey, Uruguay
Subsidies	Argentina, Australia, EC, Indonesia, Jamaica, Hong Kong, Kenya, Pakistan, Singapore, Sri Lanka, Switzerland, Turkey, Uruguay, Tanzania, Zambia, Zimbabwe
Air Transport Services Review	Argentina, Hong Kong
Reforming Domestic Regulatory Regimes & Regulations (Develop Disciplines)	Argentina, Australia, Chile, Hong Kong, Japan, Indonesia, New Zealand, Singapore, Switzerland, Turkey, US, Uruguay, EU, U.S., Kenya, Venezuela
National Treatment & Market Access	U.S., EU, Australia, Japan, New Zealand, Singapore, Switzerland, Argentina
Professional Services	Australia, U.S.
MFN	Hong Kong (Eliminate Exemptions), Argentina, EC, Hong Kong, Japan (Review Exemptions), Jamaica, Kenya, Pakistan, Sri Lanka, Tanzania, Uganda, Venezuela, Zambia (operationalize), India, Hong Kong, Japan, Switzerland, Turkey, Uruguay (S&D treatment)
Expansion of Sectors Covered	
Energy	Venezuela, US, Switzerland
Express delivery	U.S.
Travel and Tourism	Dominican Republic, El Salvador, Honduras
Distribution	U.S., Switzerland, Australia
Additional Topics	
E-commerce and GATS Rules	Australia, Chile, New Zealand, Kenya
Trade in Services and the Environment	Norway
Clarification of GATS language	
▪ Classification, statistics, and scheduling guidelines	Australia, Hong Kong, Indonesia, Singapore, Switzerland, US
▪ Defining economics needs test	Indonesia, Singapore, Japan, Pakistan, India, Egypt
▪ Clarifying overlaps between Articles VI, XVI, and XVII	Indonesia, Singapore
▪ Grandfathering	Indonesia, Singapore
▪ Lack of standard definitions	Indonesia, Singapore
▪ Difference between modes 1 and 2	Hong Kong, Indonesia, Singapore, Norway, Switzerland
▪ Definitions of financial services supplier in Article XXVIII and the Annex on Financial Services are different	Switzerland
▪ Clarification on the relationship between Article II exemptions and specific commitments	Switzerland
▪ Clarification on Article XX: and Articles XVI and XVII	Hong Kong, Switzerland
▪ Clarify Interpretation of Economic Integration	Norway, Hong Kong
Methods and Modalities for Negotiation	
Request offer approach	Argentina, Hong Kong, Singapore, Indonesia, Australia, Chile, New Zealand, Switzerland
Horizontal approach	Australia, EC, Japan, United States
Positive list	India, Uruguay, Venezuela
Negative list	United States and EU

On-going Activities

On-going activities have to do with areas where past negotiations failed to achieve adequate results. On-going activities will focus on core GATS issues such as addressing the built-in agenda, reforming domestic regulatory regimes, and expanding national treatment and market access commitments for trade in services.

Reforming Domestic Regulatory Regimes

Developed countries will request greater transparency and fairness in the domestic regulatory process in order to increase the level of contestability in markets. The U.S. Coalition of Service Industries (CSI) is promoting four principles for domestic regulation: (1) adequacy, such that regulations should only correct “serious” market imperfections; (2) impartiality, so that regulations do not favor any one provider over another; (3) minimum intrusion, so that regulations do no disrupt smooth functioning of markets; and (4) transparency to the availability of the laws and to the lawmaking process. These four principles may serve as the foundation for negotiations on reforming domestic regulatory regimes.

National Treatment and Market Access

National treatment involves a commitment to applying domestic laws and regulations to foreign producers on the same basis as they are applied to domestic producers. Market access involves the removal of regulations that restrict the level or volume of production, number of employees, prices, or other business factors. For national treatment obstacles, such as embargoes, quotas, and other forms of discrimination against foreign suppliers of services, and for market access restrictions such as quotas, citizenship requirements, and limitations on locally established foreign firms' volume of activity, negotiators might take a formula approach whereby countries would agree to a percentage reduction or elimination of particular types of market access.

Transportation Services

During the Uruguay Round negotiations a special Working Group was set up for transport services. The Working Group divided negotiations on the basis of transportation mode—sea, air, and land—and succeeded in creating an Air Transport Annex. There was also considerable work done on Maritime and Land Transportation, with annexes proposed for both modes. However, since no annex was concluded for Maritime and Land Transportation, those commitments that were negotiated were inscribed in the national schedules of Member countries.

This Working Group on Transportation Services established a separate Negotiating Group on Maritime Transport Services (NGMTS) to help facilitate the workload for negotiations on transportation services. The NGMTS held 17 meetings between May 1994 and June 1996 and ultimately adopted on 28 June 1996 a Decision on Maritime Transport Services[2]. The Decision incorporates the commitments made in the maritime sector and the MFN exemptions related to those commitments in the national schedules, suspends the negotiations until the current round of negotiations on services, and suspends the MFN obligation until the end of the negotiations. The

[2] WTO Document S/L/24 dated 3 July

NGMTS agreed to suspend negotiations until the commencement of GATS 2000 because of widespread disagreement among delegations on modalities for liberalization of maritime services. Specifically, the United States expressed concern over free riders that could use MFN to benefit from other countries' liberalization without themselves liberalizing.

Current negotiations on transportation services will also likely also be organized by transportation mode—sea, air, and land—despite efforts to create a multi-modal strategy or annex that addresses the synergies between each transportation mode. A multi-modal strategy for negotiations on transportation has been suggested because it is felt that separate negotiations will not comprehensively address the linkages between each mode of transportation. This could strengthen the ability of suppliers and regulators to keep these sectors protected through restrictive national regulations.

Financial Services

The WTO financial services Annex, signed on December 13, 1997, significantly expanded national commitments in financial services. Almost all Members with commitments in financial services cover the "core" services in insurance, banking, and securities. Somewhat fewer Members made commitments in areas such as insurance intermediation and the provision and transfer of financial information. Only about a half of the Members with financial services commitments made them in derivatives trading.

However, in recent years, rapid and significant changes have occurred in the structure of financial services industries around the world. Deregulation, which is eliminating and weakening existing segmentation of financial services industries, is enabling one-stop shopping for the consumer of banking, securities, insurance and asset management services. As a result, financial markets are now classified by the services provided, rather than by the different types of financial institutions that provide them. Technological advances have also had major impacts on the financial services industries. The advent of information technology has had the effect of introducing a whole new range of competitors to the financial services markets[3].

Negotiations in this sector are expected to continue during GATS 2000, taking into account the recent changes (deregulation, technology, mergers and acquisitions) in the trade of financial services. Given the pace of change in the sector, which tends to blur the distinction between various financial services, classification issues may also become important in any forthcoming negotiations on improved commitments in this area. Negotiations will focus on clarifying commitments already made, and expanding the scope of coverage to additional financial services areas.

In addition, since the financial services sector is among the most heavily regulated of all service sectors, negotiations will focus on shifting the nature of financial services regulation from a system of supervision by authorizing to a system of supervision by monitoring. Since the financial sector is one of the basic infrastructures of an economy and essential for development

[3] Telecommunications providers and large retail distributors are entering the sector with direct access to the consumer. Automatic teller machine (ATM) networks, electronic fund transfer at point of sale (PoS), home banking or remote banking, and smart cards are cited as principal types of virtual financial services, bringing about a "virtual banking revolution". Revolutionary changes have taken place in stock exchanges where floor trading is almost completely replaced by computerized trading. Most of the world's major securities and derivatives exchanges provide electronic transactions facilities and the settlement and clearing of financial transactions are also done electronically.

and provides certain services that are considered "public goods", governments have tended to authorize specific financial transactions in order to protect their financial sectors from disruptions, due either to domestic or foreign factors. A regulatory system that requires government authorization for various forms of financial transactions and permits can impede the efficiency of trade in financial services. The preferred approach has an empowered supervisory authority or “super regulator” which can exercise effective supervision over various types of financial institutions and financial conglomerates that ensures regulations are followed for trade in financial services.

Basic Telecommunications Agreement (BTA)

Negotiations on the BTA concluded successfully on February 15, 1997. Seventy WTO Members made telecom commitments on the BTA. Sixty-eight Members committed on some or all aspects of the Reference Paper for pro-competitive regulatory principles. This represents half of the total WTO membership. Three types of market access limitations are most commonly listed in telecom commitments. These are: limitations on the number of suppliers, restrictions on type of legal entity and limits on the participation of foreign capital. The limitations are most often associated with commitments on commercial presence for basic services. Emerging economies have maintained limitations on the number suppliers and the type of legal entity be established to provide service. They have also listed "other" measures on their schedules that limit market access. Such "other" measures often include restrictions on bypass of, or requirements to use, monopoly network facilities, restrictions on resale of excess capacity of leased circuits, or prohibitions against interconnection with other leased circuits.

During this round of negotiations, developed countries will attempt to convince more developing countries to sign on to the Reference Paper in its entirety. For those developing countries that signed on to only aspects of the Reference Paper, developed countries will seek to have these countries make full commitments, adding commitments under the various model schedules for long distance, mobile, satellite, etc. The developed countries do not want to renegotiate the Reference Paper for fear that developing countries will negotiate fewer Reference Paper principles and for fear that the principles might be extended to other telecom sectors that do not require strict regulation (e.g., Internet). One approach that is likely to be pursued is a country-by-country approach whereby additional commitments would be listed in a country’s commitment column.

Movement of Natural Persons

Measures governing the temporary movement of labor may be categorized in three groups: general immigration legislation (visa requirements, etc.); labor market regulation governing the issuance of work permits etc.; and regulations defining foreigners' ability to work in individual areas. The Annex on the Movement of Natural Persons expressly exempts measures regarding citizenship and residence as well as the rules governing permanent employment from the disciplines of the Agreement. Measures falling under the two other groups, by contrast, may be captured by general GATS obligations as well as in scheduled sectors.

Most Members have avoided comprehensive commitments with regard to the presence of natural persons. In numerous services areas, governments seek to ensure on public interest grounds, that a supplier has undergone sufficient education and training before being allowed to offer services. For instance, commitments frequently apply only to senior executives and managers or persons representing an advanced level of training and expertise, and business visitors. Market access limitations, such as numerical quotas, may coincide with measures denying national treatment by favoring domestic services or service suppliers (residency requirements and non-eligibility under subsidy schemes). Licensing and qualification systems may also result in additional entry barriers.

Although negotiations on the movement of natural persons (mode 4) were concluded on June 30, 1995, developing countries (especially India, Egypt, and Pakistan) would like to improve market access opportunities and transparency for this particular mode of supply. For instance, developing countries would like developed countries to make concrete commitments in this area, specifically expanding quotas and expanding the areas in which visas can be assigned, especially visas for training assignments. Developing countries would like to first bind current levels of access by committing countries to the impartial and objective administration of existing visa rules (including bringing greater transparency and more clearly elucidating the criteria used for economic needs tests (ENT)) and then work to liberalize any quotas, simplify procedures, and expand categories to the movement of natural persons.

Professional Services

Efforts to create sectoral guidelines for the liberalization of trade in professional services have focused on developing a model agreement for accounting, auditing, and bookkeeping services. These efforts were scheduled to conclude by December 1997, yet continue to this day. As of November 1998, 56 Members have made commitments under the category of accounting, auditing and bookkeeping services.

Accountancy has been highly regulated for a long time in most countries. Perhaps the most significant issue in respect to international trade in accountancy services is the widespread nature of local qualification and licensing requirements, both in regard to individual practitioners and as conditions for the ownership and management of firms. The usage of international standards in accountancy has recently intensified as another major issue. Additional impediments to trade in accountancy services include: restrictions on international payments; restrictions on the mobility of personnel (including nationality requirements; residence/establishment requirements; professional certification/entry requirements); impediments to technology and information transfer; "Buy National" public procurement practices; differential taxation treatment/double taxation; monopolies; subsidies; quantitative restrictions on the provision of services; differences in accounting, auditing and other standards; restrictions on business structures; and restrictions on international relationships/use of firm names.

The negotiations will focus on addressing these issues as well as establishing objective and transparent criteria for recognizing professional licensing and qualification standards to ensure they are not used as disguised restrictions on trade. Once the rules for the accountancy sector have been agreed on, the Negotiating group will consider other sectors, most likely architecture and engineering services.

Emergency Safeguard Measures (ESMs)

ESMs provide governments with an "escape clause" or legal right to withdraw commitments temporarily if a surge of imports threatens to injure domestic service industries. Negotiations on ESM are made difficult because of the lack of empirical data on import surges. Many developed countries are pushing for greater transparency on rules for when developing countries may invoke

ESMs. At the last Special Session, Members debated whether or not to extend the negotiations deadline on the question of emergency safeguards. Some Members, notably Thailand, asserted that without the emergency safeguard provision to protect domestic service providers, entire national economies might experience unforeseen negative consequences, such as the Asian financial crisis. Based on the input from Thailand, the Council agreed to extend the deadline for negotiations for an additional 15 months, from 15 December 2000 to 15 March 2002.

Government Procurement

The Agreement on Government Procurement (GPA) —originally negotiated during the Tokyo Round—was renegotiated for the second time during the Uruguay Round. It is one of the WTOs Plurilateral Agreements (its disciplines apply only to those WTO Members that have signed it). The main objective of the GPA has always been—and remains—to subject government procurement to international competition. To accomplish this objective, the Tokyo Round GPA extended the GATT obligations of national treatment, MFN and transparency to the tendering procedures of government entities.

Because public procurement constitutes a large source of demand for services in most countries, the GATS specifically calls for negotiations on government procurement of services. Since government contracts comprise a large share of the market for a number of services, the impact of discriminatory procurement policies on trade in services may be significant. At the same time, improving developing country access to global procurement markets could help to induce Government's to adopt multilateral rules if these can be shown to be in their interests. The rules and procedures that are negotiated with regard to government procurement of services will be important in determining the potential for growth of services exports from developing countries.

Government procurement negotiations are likely to run into significant obstacles because of discretionary principles guiding how sovereign nations spend their tax dollars, as well the discretionary standards used in consigning service contracts. Developed countries argue that transparent government procurement practices should encompass both trade in goods as well as trade in services. Because of the overlap with work already underway in the WTO, efforts to enlarge the coverage and Membership of the existing limited-Membership Agreement on Government Procurement is likely.

Air Transport Annex

The Council for Trade in Services was mandated by the GATS to conduct a review of the Air Transport Annex. The Council has already had one session on recent developments in this sector since the Uruguay Round, and will hold another two-day session on the Annex in December.

The Air Transport Annex applies to measures affecting aircraft repair and maintenance services, the selling and marketing of air transport services, and computer reservation system (CRS) services. The Annex does not apply to traffic rights or services directly related to the exercise of traffic rights. There are several reasons why Members may think it necessary to undertake further work on the classification of air transport services, and perhaps on aviation services more generally. The first and most important is the lack of a definition in the Annex of "services directly related to the exercise of traffic rights", which leaves unclear what is included in services *not* directly related to traffic rights. However, there are commitments in a number of schedules on aviation services other than repair and maintenance, CRS and selling and marketing;

in the view of the Members concerned, these are presumably services not directly related to traffic rights.

Since there are many services ancillary to all forms of transport that can be offered either in conjunction with air transport services or in multi-modal combinations, the review of the Air Transport Annex will attempt to reach an understanding on the treatment of such services for scheduling purposes. Members might decide to pursue classification issues further, especially: franchising, catering services, fuelling services, and general aviation services (these are services involving the use of aircraft which are not "air transport" in the sense of carriage of passengers and freight). And finally, the review will attempt to reach a clear understanding on the coverage by the GATS of aviation activities other than air transport (for example recreational flight, crop-spraying by air, flight surveys, geological or archeological, aerial photography and publicity, etc.).

MFN Exemptions

When the GATS agreement came into effect, each Member was allowed to set aside specific domestic policies that would be excluded from the MFN principle for not more than ten years. Members were subsequently obligated to review the conditions giving rise to these exemptions every five years. At the time of the signature of the Final Act of the Uruguay Round, seventy Members insisted in maintaining MFN exemptions and inscribed MFN exemptions in their national schedules. Concurrently with the GATS 2000 negotiations, the Council for Trade in Services is conducting a mandated review of MFN exemptions. The Council has nearly completed an exhaustive review that will provide a basis for negotiation in this area. At the most recent meeting of the Special Session, the Council was considering that a further review of the MFN exemptions should be undertaken in 2004.

Additional Topics for Negotiations

Additional topics for negotiation will include expanding coverage of services sectors (e.g., electronic commerce and retail distribution), clarification of GATS language, how to treat unilateral liberalization, methods and modalities for negotiations, and time frame for concluding negotiations.

Regarding the expansion of sectors covered, it is likely that coverage will be extended only to retail distribution sectors[4]. However, the United States, along with Australia, Switzerland and Venezuela are proposing that additional sectors be negotiated. These additional sectors include express delivery, energy, environmental, software, and travel and tourism (See Table 1). Developing countries are likely to resist incorporating these topics during this round of negotiations because of their limited capacity to adequately negotiate such an expansive range of issues. For those sectors that are placed on the negotiating table, Members will likely seek to secure commitments on national treatment, market access, and cross border services in as many sectors as possible and bind these new commitments in national schedules. Table 2 lists additional areas of interest for which Members have submitted proposals for the GATS 2000 negotiations.

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[4] It is important to note that the list of sectors that will be negotiated is not finalized and could include other sectors not analyzed in this paper. Thus far, only the U.S. has expressly maintained interest in negotiating additional sectors.

Table 2. Sectoral and Mode of Supply Interest

Member	Sector
Australia	Air transport services, maritime, telecommunications, professional services (legal, engineering, architecture and surveying), environmental, educational, and distribution services
Switzerland	Air transport, environment services, distributions services, energy services
United States	Transport and distribution, financial services, legal and accounting services, telecommunications, software, information dissemination, energy services, internet and electronic commerce
Venezuela	Energy services, especially the oil industry

Retail Distribution

The distribution sector is of considerable importance to in a nation's economy, not only in terms of its direct contribution to output and employment, but also in terms of its crucial role in domestic and international trade. There is evidence that international trade in distribution services is growing from previously low levels, due to the liberalization of trade in goods and foreign investment regimes, and the development of new technologies, especially in telecommunications.

Commitments on at least one sub-sector of distribution services can be found in the schedules of 36 WTO Members. Most have undertaken commitments on both wholesale (34 Members) and retail (33 Members) services, and a smaller number on commission agent's services (21 Members) and franchising (23 Members). Even though many WTO Members have not made commitments in any of these sectors, Members with commitments account for, on average, around 90 percent of the GDP of all Members.

There remains much scope for further liberalization and for improved commitments in distribution services, especially with regard to the presence of natural persons. There is little doubt that the GATS represent an effective framework of rules to deal with quantitative restrictions and discriminatory measures. However, it is less clear that adequate disciplines exist to deal with domestic regulations, such as licensing requirements, which are also perceived to restrict trade in distribution services. This situation may be due to the fact that quantitative restrictions and discriminatory measures are easy to identify and target, while other trade-restrictive measures are more elusive. Therefore developed countries (U.S. and EU) are advocating development of a sectoral annex that clearly establishes the right of outside suppliers to build and invest in retail outlets. This need has arisen because countries wishing to protect small retailers create laws that make it difficult to establish large retail outlets. A sectoral annex would be strategically important to the operations of the international trading system.

Information Technology

The information technology (IT) industry has grown rapidly, owing much of its growth to the convergence of telecommunications, computer technology and software. Some examples of IT services include electronic mail, electronic funds transfer, electronic data interchange, electronic information services such as bulletin boards, online databases and CD-ROM databases as well as computer consulting services such as software development and systems integration. The IT industry also includes companies that use, design, build and supply the means for electronic commerce.

There exist numerous government regulations that, if not addressed, may stunt the growth and development of these services. These include labor policies (work permits/visas, education and training), research and development support, protection of intellectual property rights to address software piracy, technical standards, tariffs on computer equipment, and government procurement of information services. Moreover, as on-line supply of computer services becomes increasingly commonplace, issues of legal contract, software license enforcement as well as many of the internet/e-commerce related concerns such as authentification, encryption, protection of individual privacy, and protection of the consumer assume ever greater importance for the computer industry.

If included in the current round of negotiations, developed countries will seek to guard against the threat of subjecting the IT industry to increased government regulation. The rational behind this objective is that since the IT industry is already highly competitive, this competition obviates the need for oversight similar to that of the telecommunications industry. Also, since the telecommunications industry itself is now experiencing widespread deregulation, it would seem counterintuitive to erect new regulatory constraints on IT services. And finally, a need for public-interest regulation typical of the telecommunications and broadcasting sectors is much less evident in the IT industry. Although there is a belief that the IT industry not be subjected to regulations and therefore need not be included in the current negotiations, the fact that there are regulations in place that are stunting the growth of the industry has led to suggestions of developing an annex similar to that of the BTA in order to establish pro-competitive regulatory principles to help facilitate the growth of the IT industry.

Clarification of GATS Language

Many countries are calling for clarification of the GATS language so that protectionist policies cannot be hidden with imprecise language. Examples of language that needs to be clarified and the countries that are calling for the clarification are listed in Table 2.

Treatment of unilateral liberalization

Argentina, Indonesia, Singapore, and Uruguay believe that credit should be given for unilateral liberalization. Switzerland and Turkey are less clear, stating that only modalities for treatment of unilateral liberalization should be established. The United States thinks that the existing services regimes should be the starting point for negotiations, but would acknowledge unilateral liberalization if bound in national schedules.

Methods and Modalities for Negotiation

During phase 1, in addition to agreeing on the objectives of the GATS 2000 negotiations, Members are attempting to reach consensus on the methods and modalities for negotiation and whether or not the negotiations will be a single undertaking (where all issues and sectors will be negotiated concurrently and conclude at the same time) or if sectors would be negotiated individually (where each issue or sector is negotiated and concluded regardless of whether negotiations on other issues or sectors have concluded). Argentina, Indonesia, Singapore, and Turkey would like to see a single undertaking rather than an approach whereby each services component is negotiated individually. Other developing countries with less institutional capacity might support a single undertaking in order to gain beneficial trade-offs between sectors so long as the number of issues and sectors that are negotiated are kept to a minimum. Conversely, the U.S. and EU support an approach where issues and sectors are negotiated individually, stating that trade creation and new business opportunities in key service sectors would be significantly delayed while waiting for conclusion of a single undertaking.

Some Members want to utilize the request-offer approach, as in the previous GATS negotiations. Under this approach Members offer to open up a sector and/or request a trading partner to do so as well (Argentina, Hong Kong, Singapore, Indonesia, Australia, Chile, New Zealand, Switzerland).

Under a horizontal approach, negotiations would focus on specific modes of delivery and have Members bind that mode across all sectors, subject to exceptions (Australia, EC, Japan, United States). Some Members prefer to the bind the results of the negotiations using a positive list or bottom-up approach whereby negotiations cover only the specific service sector they list (India, Uruguay, Venezuela). Others prefer a negative list or top-down approach whereby all countries are committed to opening up all services sectors except those specifically listed in the schedules (United States and EU). Still other modalities exist, such as model schedules (schedules where Members negotiate and then sign on to, as in the BTA) and clusters of service activities to which countries would sign on to. These issues will be addressed during the technical phase of the negotiations and should be resolved by March 2001.

Time Frame

Australia, Chile, New Zealand, Indonesia, Singapore, and Turkey propose limiting negotiations to three years. The United States agrees and has prepared a proposal that contains a precise timetable for the negotiations, including a deadline for their conclusion by December 2002. Norway had an ambitious schedule under which the first half of 2000 would be set as a deadline for initial requests and offers on specific commitments. In the U.S. proposal, this period has been extended until March 2001.

DEVELOPING COUNTRY PERSPECTIVE

The services sector is rapidly becoming as important to developing countries as it is to developed ones. Yet, despite the growing importance of services and the technological advances facilitating trade in services, many services remain difficult to trade because of protective domestic regulatory regimes in developing countries. One mode of supply and three sectors in particular hold special interest for developing countries: movement of natural persons, construction, maritime, and tourism services. But, in exchange for increased liberalization in sectors and modes of supply of interest to developing countries, it is likely that any offers for further liberalization will be conditioned on agreement that a suitable safeguard mechanism on services is agreed upon.

Movement of Natural Persons (Mode Four)

The following Table shows that, between 1980 and 1990, total labor-related exports and imports (credits and debits) of developing countries have enjoyed substantial gains and can continue to do so if additional commitments are made in the movement of natural persons.

Table 3. Direction of labor-related flows, 1980 – 1990[a] (US$ million, percent)

	1980	1990	Growth rate (1980/90)
Developing countries			
Credits	29,279	45,955	57%
Debits	8,153	9,250	13%
Balance	21,126	36,705	74%
Developed countries			
Credits	13,072	25,186	93%
Debits	24,461	50,333	106%
Balance	-11,389	-25,147	-121%

[a]Labor-related flows include labor income, workers' remittances and migrants' transfers. *Source: WTO, UNCTAD; World Bank (1994).*

Developing countries (especially India, Egypt, and Pakistan) would like to improve market access opportunities and transparency for this particular mode of supply. For instance, developing countries would like developed countries to make concrete commitments in this area, specifically expanding quotas and expanding the areas in which visas can be assigned, especially visas for training assignments. Developing countries would like to first bind current levels of access by committing countries to the impartial and objective administration of existing visa rules (including bringing greater transparency and more clearly elucidating the criteria used for economic needs tests (ENT)) and then work to liberalize any quotas, simplify procedures, and expand categories to the movement of natural persons.

Construction Services

For the developing economies, the construction sector carries particular importance because of its link to the development of basic infrastructure, training of local personnel, transfers of technologies, and improved access to information channels. In addition, most developing countries have experience and have a comparative advantage in labor-intensive construction services. Although disaggregated data are not always available for developing economies, the share of construction in GDP does not differ very much from the industrialized countries in such countries as India (5.7 per cent), Philippines (5.6), Malaysia (4.5), Thailand (7.0) and Singapore (7.1).[5]

The sector is also important as a major employer. Construction services are primarily supplied through the establishment of service suppliers at or near the site of the work by local or regional operators, and although it has not been possible to obtain detailed figures for the movement of workers related to the industry, a large portion of the movement of workers into the industrialized countries and the Middle East, from Asia, Latin America and other regions are believed to be construction-related. Some of the most important restrictions on developing country exports of construction services are those related to the movement of natural persons. Nationality and residency requirements or other staffing requirements for persons employed by foreign firms could constitute limitations on market access and national treatment.

In addition, obstacles include: (a) restrictions on the establishment and operation of a commercial presence by foreign firms, such as limitations on foreign investment including those

[5] Statistical Database System of the Asian Development Bank.

on foreign ownership (for example, only minority ownership allowed for foreigners) or on the types of legal entity allowed (such as a local incorporation requirement, or a prohibition on establishing branches); (b) subsidies and tax incentives to promote construction work or to encourage growth of the construction sector; (c) problems associated with the recognition of credentials and licenses for foreign individuals and firms; and (d) regulations and practices adopted with regard to government procurement and the need to ensure non-discrimination and transparency in the procurement process.

Negotiations will likely focus on expanding coverage on construction services as well as the possible establishment of a separate annex on construction services. In addition, developing countries might address the relevance of transparency, movement of personnel across borders, movement of equipment and material, movement of capital, transfers of technology to developing countries, and the importance of government procurement. The European Communities and Korea made two draft proposals for an annex on this sector.[6] It was decided in the end that no sector-specific provisions or annotations were necessary for the construction and engineering sector.

Maritime Services

Shipping remains by far the main mode of international transport of goods, although the rate of growth of cargo transport by air is much higher: 5 per cent over the last ten years as compared to 2 per cent for shipping.[7] Freight rates are diminishing as a proportion of the value of the goods transported. They represented 6.64 per cent of value in 1980, and 5.27 per cent in 1997. These costs are however higher for developing countries (8.3 per cent in 1997) than for developed countries (4.2 per cent), a difference that can be explained by several factors: a bigger volume with bigger and more efficient ships (carrying up to 6,600 containers), and stronger competition added to a higher average value of goods transported for the developed markets.

Shipping operators that transport containerized and general cargo by regular lines publishing in advance their calls in the various countries are organized in two ways: (1) in "shipping conferences" that are more or less integrated cartels fixing prices and frequencies of transport and (2) as "outsiders" that are very big or very small independent operators. Two types of shipping conferences exist in the word: open conferences on the U.S. routes, closed conferences in the rest of the world. Conferences, which appeared around 1870 with the appearance of steamers on the UK to India lines, enjoy antitrust immunity and benefit from block exemption from the competition authorities as they are thought to constitute a factor of stability and a source of technical progress and better services to customers. Due to these factors, maritime services should be a major interest for developing countries.

The shipping conferences provide much of the world’s maritime services. These cartels raise transportation costs to/from developing countries, especially low volume and high distance destinations in Africa and poorer island economies[8]. Liberalization in this sector would lead to

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[6] These proposals were contained in documents MTN.GNS/CON/W/1 and W/2.

[7] Source: World Bank "Lessons and practices – ports" operations evaluation department, number 9, June 1996.

[8] Immediately following the Asian financial crisis, the shipping cartel for the Pacific region raised prices. The appeared to be an attempt by the cartel to garner some of the benefits of exchange rate depreciation on trade goods prices for itself.

increased competition that would (1) reduce prices for importing countries and enhance the competitiveness of exporting countries and (2) increase the ability of developing countries to provide maritime shipping services themselves (those that either have, or may be able to develop, a comparative advantage in maritime shipping). This is especially important because over the last 30 years, the share of the traffic held by the conferences has been eroded as new state trading and South East Asian operators have emerged and become powerful enough to offer on their own services equivalent to those of the conferences.

Table 4. Overview of Indonesia's Maritime Industry (Dec. 1996)

Country of territory of domicile	Number of vessels			Deadweight tonnage				
	National flag	Foreign flag	Total	National flag	Foreign flag	Total	Foreign flag as percen-tage of total	Total as percen-tage of world total
Indonesia	463	86	549	3,060,844	1,154,412	4,215,256	27.39	0.62

Source: Lloyd's Maritime Information Services Ltd. (London).

Tourism

Tourism, broadly defined, is regarded as the world's largest industry and one of the fastest growing, accounting for over one-third of the value of total world-wide services trade. Highly labor-intensive, it is a major source of employment generation, especially in remote and rural areas. The tourism sector is already a major employer in developing nations, and the importance of tourism employment is increasing, due to the high growth rate of the sector relative to the domestic economy as a whole. UNCTAD notes that the tourism trade has traditionally been concentrated in developed countries, but the share of developing countries has been rising gradually, and now accounts for about one-third of the total. Least Developed Countries are enjoying strong increases in tourist growth, but their share of international arrivals and tourism receipts remains very small, at 0.7 and 0.4 per cent, respectively. Examples of countries with rapid tourism growth (often from a very low base) include Cambodia, Mali, Laos, Myanmar, Uganda and Tanzania. The situation differs greatly between countries, and heavily affected by political and economic instability as well as the availability of transport facilities. Considering the highly labor-intensive nature of tourism, developing and least developed countries would appear to have strong potential comparative advantage.[9]

As of September 1998, 112 WTO Members have made commitments in Tourism under the GATS. This level is greater than for any other sector, and indicates the desire of most Members to expand their tourism sectors and to increase inward FDI as part of efforts to promote economic growth. In the view of the World Tourism Organization, the tourism sector was already highly liberalized before the Uruguay Round negotiations; few major obstacles remain. However, many developing countries feel that they are not able to address anticompetitive behavior in the tourism

[9] According to the World Tourism Organization, the extent of employment generated by tourism in these countries is partially contingent upon the "ability and willingness of local tourism businesses, operators and governmental bodies to develop plans, market effectively and reach an appropriate target audience" (World Tourism Organization, International Tourism: A Global Perspective, 1997, p.226).

sector under current GATS disciplines. Anti-competitive practices of developed countries, including vertical and horizontal integration of key activities in the tourism cluster, reduce the share of value-added that is kept by developing countries. In response, one set of developing countries (Dominican Republic, El Salvador and Honduras) has tabled a proposal calling for the establishment of an Annex on Tourism that would include commitments that guard against anticompetitive behavior, and establish safeguards for travel reservation services, air and other transportation services and travel-related financial services. These safeguards would allow developing countries to restrict trade in tourism services if the services are traded on anticompetitive basis, if there is a severe balance of payments crisis, and if there if the international services are causing injury to domestic providers of tourism services.

Table 5. International Tourism Balance of Account expenditure (excluding fare receipts) – Countries with the highest surplus

	Balance of Tourism Account (US$ million)	
	1995	1985
Spain	21,161	7,141
United States	15,282	-6,796
Italy	15,032	6,473
France	11,199	3,385
China	5,045	936
Thailand	4,292	891
Turkey	4,045	1,158
Singapore	3,339	1,047
Indonesia	3,056	-66
Mexico	3,011	643

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Appendix A. Leading exporters and importers in world trade in commercial services, 1997 (US$ billion and percentage, balance of payments basis)

		Exporters					Importers		
Rank	Country	Value	Share of World Services	1996/1997 percentage change	Rank	Country	Value	Share of World Services	1996/1997 percentage change
1	United States	229.9	17.5	7	1	United States	150.1	11.6	7
2	United Kingdom	85.5	6.5	12	2	Japan	122.1	9.4	-5
3	France	80.3	6.1	-3	3	Germany	120.1	9.3	-5
4	Germany	75.4	5.7	-4	4	Italy	70.1	5.4	5
5	Italy	71.7	5.5	4	5	United Kingdom	68.6	5.3	9
6	Japan	68.1	5.2	3	6	France	62.1	4.8	-5
7	Netherlands	48.5	3.7	-1	7	Netherlands	43.8	3.4	-2
8	Spain	43.6	3.3	-1	8	Canada	35.9	2.8	1
9	Hong Kong, China	37.3	2.8	0	9	Belgium-Luxembourg	32.1	2.5	-3
10	Belgium-Luxembourg	34.0	2.6	-2	10	China	30.1	2.3	34
11	Singapore	30.4	2.3	2	11	Korea, Rep. of	29.0	2.2	0
12	Canada	29.3	2.2	2	12	Austria	27.4	2.1	-10
13	Austria a	28.5	2.2	...	13	Spain	24.3	1.9	1
14	Switzerland	25.6	2.0	-2	14	Taipei, Chinese	24.1	1.9	2
15	Korea, Rep. of	25.4	1.9	12	15	Hong Kong, China	22.7	1.8	6
16	China	24.5	1.9	19	16	Sweden	19.5	1.5	4
17	Turkey	19.2	1.5	49	17	Singapore	19.4	1.5	1
18	Australia	18.2	1.4	1	18	Brazil	19.0	1.5	36
19	Sweden	17.6	1.3	5	19	Russian Fed.	18.7	1.4	0
20	Taipei, Chinese	17.0	1.3	5	20	Australia	18.2	1.4	0
21	Denmark a	16.5	1.3	...	21	Thailand	17.2	1.3	-11
22	Thailand	15.8	1.2	-5	22	Malaysia	16.8	1.3	0
23	Philippines	15.1	1.2	17	23	Indonesia	16.1	1.2	9
24	Malaysia	14.5	1.1	4	24	Ireland	15.0	1.2	12
25	Norway	14.3	1.1	2	25	Denmark b	14.7	1.1	...
26	Russian Fed.	13.5	1.0	4	26	Norway	14.5	1.1	8
27	Mexico	11.2	0.9	5	27	Switzerland	14.1	1.1	-8
28	Poland a	10.1	0.8	...	28	Philippines	14.1	1.1	50
35	Czech Rep.	7.0	0.5	-13	35	Egypt	7.2	0.6	52
36	Finland	6.8	0.5	-6	36	Poland b	6.5	0.5	...
37	Indonesia	6.8	0.5	5	37	Portugal	6.1	0.5	-6
	Total of above	1204.2	91.8	3		Total of above	1175.2	90.7	2
	World	1310.0	100.0	3		World	1295.0	100.0	2

a Secretariat estimates. … Not available.

Appendix B: Imports of services in 1998 (Million dollars): all countries, 10 main sectors.

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Albania	119	75	5	13		26	1	0			
Argentina	8795	2737	4231	173	3	296	207	1	514	479	155
Armenia	175	110	41	5		11	2			3	4
Aruba	528	164	135	17	45	27	6	3		130	
Australia	16880	5937	5417	940		578	284	244	1010	2007	464
Austria	30035	3138	9509	491	464	936	710	230	811	13519	227
Azerbaijan	692	194	170	6	138	7	0			177	
Bahamas	939	205	256	1	146	60			9	260	2
Bahrain	652	426	142			27				57	
Bangladesh	1164	846	151	13	12	79	21	1	5	35	
Barbados	409	147	82	5	2	96	4	5	22	46	0
Belarus	431	133	124	32	14	10	7	8	1	102	
Belgium-Luxembourg	34095	7455	8794	573	860	769	3616	1076	1150	9013	789
Belize	94	45	21	0		9		1	0	19	
Bolivia	423	270	60	19		37		5	5	21	6
Botswana	517	218	126	3	2	16	3	0	9	140	
Brazil	15743	5090	5385	230		-198	348	310	1075	3169	334
Bulgaria	1398	530	519	61	22	24	39			202	
Cambodia	185	99	7	11	38	10				22	
Canada	37201	7907	10792	1577	108	3236	1436	755	2380	7831	1179
Cape Verde	85	40	24	1	1	2	0	5	0	12	0
Chile	4077	2172	943	175		120			56	611	
China	26467	6763	9205	207	1120	1758	163	333	420	6459	39
Colombia	3472	1256	1120	152		358	138	30	63	340	15

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Costa Rica	1168	498	409	59		54	-1	1	22	125	2
Côte d'Ivoire	1341	568	237							537	
Croatia	1890	338	600							951	
Cyprus	1119	561	408	23		66			19	42	
Czech Rep.	5665	700	1882	150	295	117	280	68	113	1775	286
Denmark	15779	7024	4577							4178	
Dominica	45	19	8	10		4			0	3	
Dominican Republic	1300	781	254	45		166	6		25	22	
Ecuador	1498	638	241	52		163			68	308	28
Egypt	5886	2033	1153	29		430	24	11	392	1792	22
El Salvador	539	256	116	5	4	24	76	1	7	43	6
Estonia	814	409	155	18	31	16	15	10	7	150	2
Ethiopia	405	227	46	5	33	20	0	3		71	0
Fiji	320	141	51	2		25				101	
Finland	7677	2072	2062	203	7	106	38	649	411	2113	16
France	65420	19909	17810	901	2668	1368	1607	628	2717	16012	1800
Georgia	335	80	226	6		18				5	
Germany	128819	25207	48917	2913	6127	1829	1639	3614	5004	31090	2479
Ghana	433	268	24			30				110	
Guatemala	759	419	157	3	1	27	13	5		134	0
Guinea	274	150	27	9	5	9	0	3	0	72	1
Haiti	370	326	37	8							
Honduras	396	248	61	24	9	3	4	1	5	37	4
Hungary	4082	452	1115	38	123	87	264	96	215	1644	48
Iceland	947	321	396	21	22	13	2	1		159	12
India	14192	7093	1713			628			201	4557	
Indonesia	11744	3731	2102	40		334				5537	

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Iran, Islamic Rep. of	2392	1304	153			230	24			681	
Ireland	28790	2970	3000	230		1537	1360	346	7794	11553	
Israel	9626	3941	2376	209	32	279			210	2578	
Italy	62887	13627	17579	1429	1405	1818	3099	783	1155	20727	1265
Jamaica	1233	529	198	40	6	72	3	5	30	346	4
Japan	110705	28385	28806	1594	5527	2369	2152	3532	8947	28132	1261
Jordan	1588	600	451			81				457	
Kazakhstan	1154	418	498	17	44		21			127	30
Kenya	603	309	147	7		67	11	2	40	22	
Korea, Rep. of	23523	8983	2898	1133		143	109	90	2369	7705	92
Kuwait	4243	1624	2517			69				33	
Kyrgyz Rep.	177	93	3	8	10	11	2	2		47	0
Lao People's Dem. Rep.	92	38	23	1	26	5					
Latvia	717	221	305	26	8	59	17	7	7	68	0
Lesotho	50	37	13			-1			1	0	
Libyan Arab Jamahiriya	915	459	334							122	
Lithuania	816	266	292	29	110	23	4	3	6	78	6
Madagascar	326	142	119	3	19	5	0		10	28	0
Maldives	97	46	42			4				6	
Malta	817	366	193	10		113		2	12	116	5
Mauritania	130	48	42							39	
Mauritius	706	244	185			26				251	
Mexico	12621	1604	4267	361		4748	127		454	1056	4
Moldova, Rep. of	191	89	54	4	7	1	5	4	0	27	
Mongolia	142	81	45	6		3				7	
Morocco	1414	567	423	36		35			171	181	
Mozambique	396	107				8				281	

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Myanmar	429	141	27							262	
Namibia	449	150	88	0	12	54	2	9	3	132	
Nepal	189	56	78							55	
Netherlands	46797	14777	10886	897	1120	647	680	798	3028	13467	497
New Zealand	4451	1468	1438	171	1	146	22	96	293	803	13
Nicaragua	264	97	70	3		8				85	
Nigeria	4054	704	1567			85				1697	
Norway	15211	5161	4564	157	97	717	109	185	341	3603	277
Oman	1303	548	47			61				648	
Panama	1129	654	176	1		79	102		18	100	
Papua New Guinea	794	161	52			49				532	
Paraguay	535	324	143			60	1	2	1	0	5
Peru	2191	943	429	58		151	60		80	470	
Philippines	10087	1983	1950		218	43			70	5823	
Poland	6559	1663	773	354	273	963	247	124	195	1901	66
Portugal	6708	1905	2426	204	109	92	145	138	290	1155	244
Romania	1838	633	458	44	20	45	49	20	21	475	73
Russian Fed.	16219	2649	8677	353	525		238		2	3775	
Rwanda	115	70	17						1	28	
Samoa	29	21	4	1		1			0	2	
Saudi Arabia	8659	2230				248				6181	
Singapore	17377	5828	4548			733				6269	
Slovak Rep.	2272	444	475	36	123	23	63	62	55	931	60
Slovenia	1520	405	575	30	43	1	23	46	39	327	31
Solomon Islands	54	9	6	5	0	1	9	2	0	22	
South Africa	5278	2247	1842	106		403			165	515	
Spain	27038	7187	5016	541	297	930	1013	1021	1877	7883	1272

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Sri Lanka	1325	793	202			77				253	
Sudan	200	161	29	6		0	0		0	4	
Swaziland	185	20	42	1	4	8	0	1	39	69	
Sweden	21620	4154	7719	728	471	181	294	911	939	6141	81
Switzerland	15273	3645	7111	775		211	506			2956	71
Syrian Arab Republic	1297	631	580							86	
Tanzania, United Rep.	885	209	493	9	0	23	21	2	5	122	0
TFYR Macedonia	297	144	31	5	6	48	3	1	2	54	2
Thailand	11874	4604	1960	54	124	592			514	4026	
Togo	149	107	3	3	2	17	6	1	0	9	0
Trinidad and Tobago	235	124	67	5		0			0	38	
Tunisia	1121	591	235	5	11	68	40	3	3	151	14
Turkey	9441	2601	1754		194	65	494			1075	3258
Ukraine	2545	487	340	131	196		90			1301	
United Kingdom	78231	22754	33452	2443	184	969	280	747	6375	10241	787
United States	165827	50257	57817	8636	700	6908	3771	505	11292	25859	82
Uruguay	831	362	265	40		43	22		9	65	26
Vanuatu	41	20	8	1	0	2	0			11	
Venezuela	4824	1492	2451	50		73	43			697	18
Yemen	510	284	83							143	

Source: IMF Balance-of-Payments Statistics.

* Other business services can be considered a residual covering all services not falling within one of the explicit categories of Other Services: It comprises, for example, Merchanting, Operational Leasing, Miscellaneous business, professional and technical services, research and development, architectural, engineering and other technical services, agricultural, mining and on-site processing services and other services.

Appendix C. Exports of services in 1998 (Million dollars): all countries, 10 main sectors

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Albania	83	13	54	14			1	1			
Argentina	4532	1075	3025	193	22		56	1	17	43	101
Armenia	118	53	24	26		2	1			7	7
Aruba	877	63	741	5	8	9	2	0		49	
Australia	15827	4329	7293	814	9	535	447	375	275	1502	248
Austria	31817	4523	11151	422	738	799	757	85	99	13035	210
Azerbaijan	320	129	125	16	14	3	1			33	
Bahamas	1517	58	1354							105	
Bahrain	725	259	366							99	
Bangladesh	252	92	52	28	0	3	11	1		62	1
Barbados	995	21	712	27	2	68	64	24	0	76	0
Belarus	870	495	22	43	69	2	11	6	1	220	
Belgium-Luxembourg	36688	9909	5443	1469	895	898	5353	1407	703	9959	652
Belize	122	7	99	5		1				9	
Bolivia	238	80	69	53		22	4			10	
Botswana	241	44	175	0	1	3	3	0	0	14	
Brazil	7083	1862	1317	157			323	6	142	3160	116
Bulgaria	1766	452	966	28	74	10	33			203	
Cambodia	99	38	44	17							
Canada	32272	5982	9391	1503	207	2776	794	1047	1135	8404	1032
Cape Verde	74	45	20	5	2	0	0	0	0	2	
Chile	4030	1614	1158	192		138			91	837	
China	23879	2300	12602	819	594	384	27	134	63	6941	15
Colombia	1999	604	928	314			95	4	4	44	6

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Costa Rica	1315	198	902	93			8		2	113	
Côte d'Ivoire	461	118	108							235	
Croatia	3964	566	2733							665	
Cyprus	2657	369	1715	37						536	
Czech Rep.	7366	1390	3742	71	266	31	224	57	57	1243	284
Denmark	15212	7300	3236							4676	
Dominica	72	7	38	17		3				8	
Dominican Republic	2421	62	2153	145						61	
Ecuador	761	278	291	88		83				4	17
Egypt	7832	2494	2565	216	49	38	55	10	56	2337	12
El Salvador	277	42	84	78	6	16	38	0		3	10
Estonia	1476	708	539	14	58	2	13	8	1	133	1
Ethiopia	348	180	37	38	8	6	3	0		74	2
Fiji	475	120	270	3		17				65	
Finland	6693	2055	1630	163	123	13	32	1051	106	1519	
France	84627	20400	29963	887	4926	963	1502	769	2336	21454	1428
Georgia	278	69	188	16						5	
Germany	79281	20517	16779	1786	4703	764	3345	2833	3330	25099	125
Ghana	162	91	19			5				48	
Guatemala	581	89	314	1		23	8	4		142	
Guinea	66	49	1	10	4		0			2	
Haiti	178	4	113	61							
Honduras	361	73	164	86		7	1			30	
Hungary	5881	648	3516	49	108	28	159	59	46	1179	89
Iceland	840	441	205	19	6	5		17		141	6
India	11067	1773	2949			230			19	6096	
Indonesia	4340		4255	85							

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Iran, Islamic Rep. of	902	419	12			45	22			404	
Ireland	15889	1636	3297	321		1666	1288	4699	225	2757	
Israel	8980	2092	2657	193	134	17			218	3670	
Italy	66621	10641	29809	674	4493	1299	2261	288	477	16247	433
Jamaica	1727	260	1197	185	1	6	9	37	7	16	10
Japan	61795	21270	3743	1163	7736	42	1608	1338	7388	17078	429
Jordan	1810	310	853			2				645	
Kazakhstan	904	388	407	45	9		1			27	27
Kenya	638	306	290	27		13		1	2		
Korea, Rep. of	23843	10204	5933	656		52	145	5	260	6575	14
Kuwait	1496	1198	207			72				20	
Kyrgyz Rep.	58	19	8	10	7	1	1	0		11	1
Lao People's Dem. Rep.	116	19	95	1		1					
Latvia	1103	728	182	30	6		39	10	2	107	1
Lesotho	46	1	24						20	0	
Libyan Arab Jamahiriya	37	25	9							3	
Lithuania	1096	434	460	27	42	20	6	7	0	98	3
Madagascar	264	61	92	8	22	5	1		1	75	
Maldives	327	22	303			1				1	
Malta	1217	317	656	15		55			1	173	
Mauritania	24	1	20							4	
Mauritius	911	200	496			0				215	
Mexico	11937	1432	7899	1043		840			139	580	4
Moldova, Rep. of	117	60	32	6	4	1	3	1	0	11	
Mongolia	75	32	35	7		0					
Morocco	2558	446	1744	85		27			7	248	
Mozambique	286	58								228	

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Myanmar	529	33	170							326	
Namibia	315		288	6	1	1	4	0	6	9	
Nepal	433	59	189							184	
Netherlands	52484	20992	6815	882	2808	118	519	972	2506	16404	469
New Zealand	3684	1119	1861	188	1	12	38	55	50	329	32
Nicaragua	220	25	100	24		2				69	
Nigeria	884	113	47			4				719	
Norway	13953	8537	2088	188	31	454	59	59	90	2355	91
Oman	18	18									
Panama	1563	880	379	48		19	140			97	
Papua New Guinea	318	11	15			7				284	
Paraguay	469	65	112	10		9	3	1	185	80	4
Peru	1653	309	857	131		304			8	44	
Philippines	7465	324	1418		37	24				5662	
Poland	10890	2874	4292	431	358	1343	172	29	22	1277	92
Portugal	8512	1533	5334	226	189	84	176	52	41	732	143
Romania	1192	504	260	97	40	29	39	10	3	145	65
Russian Fed.	12373	3170	6509	552	142		97		28	1875	
Rwanda	31	9	19						0	3	
Samoa	58	2	39			0				17	
Saudi Arabia	4730									4730	
Singapore	18829	4451	4916			537				8924	
Slovak Rep.	2275	766	488	37	106	13	52	24	14	712	61
Slovenia	2045	537	1117	26	72	1	8	48	7	217	12
Solomon Islands	52	2	7	2	0	0	11	0	0	28	1
South Africa	5109	1084	2738	74		543			72	599	
Spain	48977	7332	29905	532	540	733	1330	1720	242	6204	439

Country	Total	Transport	Travel	Communications	Construction	Insurance	Financial	Computer Information	Royalties & License Fees	Other Business*	Personal culture & recreation
Sri Lanka	888	400	230			34				224	
Sudan	14	6	2	2	0				0	4	
Swaziland	102	19	37	2		0		1	0	43	
Sweden	17675	4779	4188	490	757	386	376	986	1114	4495	102
Switzerland	25795	2970	7832	623		1571	6880			5909	10
Syrian Arab Republic	1551	221	1190							140	
Tanzania, United Rep.	534	60	399	17	14	0	22	0	1	18	3
TFYR Macedonia	130	61	15	18	4	2	3	0	1	23	2
Thailand	13074	2671	6174	159	94	51			7	3919	
Togo	65	11	11	3		2	1			37	1
Trinidad and Tobago	574	202	201	97		30				44	
Tunisia	2607	635	1657	16	19	18	34	4	11	212	2
Turkey	23161	3120	7177		2504	35	513			6234	3578
Ukraine	3922	3222	315	102	41		23			219	
United Kingdom	99007	18998	23689	2000	495	5337	10671	2626	6952	26914	1325
United States	239957	45514	83384	3936	4053	2842	13698	3992	36808	41571	4159
Uruguay	1309	253	695	50		41	85			185	0
Vanuatu	110	24	51	3	0	1	7			24	
Venezuela	1297	278	961	12		2				44	
Yemen	166	36	64							66	

Source: IMF Balance-of-Payments Statistics.

* Other business services can be considered a residual covering all services not falling within one of the explicit categories of Other Services: It comprises, for example, Merchanting, Operational Leasing, Miscellaneous business, professional and technical services, research and development, architectural, engineering and other technical services, agricultural, mining and on-site processing services and other services

Attachment 2

Discussion Paper

WTO Agricultural Negotiations

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Acronyms

AMS	aggregate measure of support
AoA	Agreement on Agriculture
APEC	Asian-Pacific Economic Cooperation
ASEAN	Association for South East Asian Nations
CVD	countervailing duty
CAP	Common Agricultural Policy
EU	European Union
GATT	General Agreement on Tariffs and Trade
GMO	genetically modified organism
LDC	least developed country
MERCOSUR	Common Market for South America
NFIDC	net food importing developing country
NTB	non-tariff barrier
PPM	production processing methods
RTA	regional trade agreement
S&D	special and differential treatment
SPS	sanitary and phytosanitary
SSM	special safeguard mechanism
STE	state trading enterprise
TBT	technical barriers to trade
TRIPs	trade-related intellectual property rights agreement
TRQ	tariff rate quota
WTO	World Trade Organization

WTO Agricultural Negotiations

Global agricultural negotiations under the auspices of the World Trade Organization (WTO) were launched in Geneva in March 2000. According to WTO figures, in 1998, out of about $6.7 trillion of world trade in goods and services, agriculture accounted for $0.5 trillion (over 8%). The Special Session of the Committee on Agriculture, established by the Committee on Agriculture, will conduct the negotiations as mandated by Article XX of the WTO Agreement on Agriculture (AoA). Thus far, the Special Session has met four times (March, June, September, and November). The agricultural negotiations will be divided into two phases. During the first phase of the negotiations, WTO members will focus on the technical aspects of the negotiations and will submit proposals setting out negotiating objectives by the end of this year—with some flexibility, allowing new or more detailed proposals early in 2001[1]. The second phase, the actual negotiation process, is set to begin in mid-2001. No date has yet been agreed upon for completion of the negotiations.

The negotiating agenda will be based primarily on three reform pillars that are part of the built-in agenda: (1) domestic support, (2) export competition, and (3) market access. In addition to the three reform pillars, negotiating proposals are calling for the inclusion of "non-trade concerns" (NTCs). NTCs refer to issues such as the social and environmental benefits of agricultural production, food security, biotechnology, and product and labor standards.

BACKGROUND

Prior to the Uruguay Round, agriculture remained outside the scope of General Agreement on Tariffs and Trade (GATT) discipline. Largely at the insistence of the United States, agriculture was essentially exempted from GATT Article XI's ban on quantitative restrictions and Article XVI's disciplines on export subsidies.

Keeping agriculture outside the rules on the international trading system enabled countries to subsidize domestic agricultural production and protect home markets through high tariffs and restrictive quotas. This created numerous trade barriers, increased unfair competition, and created market inefficiencies in the agricultural sector. To this day, agriculture remains one of the most highly protected industries, with tariff averages exceeding 50 percent, compared to between 5-10 percent on manufactures.

Although some agricultural tariff reductions occurred during the Dillon Round (1960-62), and the Kennedy Round (1964-67), it was not until the Tokyo Round (1979) that non-tariff trade barriers affecting agriculture were addressed. During the Tokyo Round, the European Union and

[1] At the Special Session held November 15 –17, 2000, seven proposals were tabled: a US proposal on Tariff Rate Quotas; 2 proposals -- one on domestic support and one on market access -- the transition economies of Eastern and Central Europe; an ASEAN proposal on special and differential treatment; a Cairns Group (excluding Canada) proposal on market access; and two submissions outstanding from the Third Special Session, one on 'non-trade concerns' (from approximately 30 countries) and one on export subsidies submitted by the Southern Cone Common Market (Mercosur -- including Argentina, Brazil, Paraguay and Uruguay).

the United States insisted on minimal reductions in the ability to subsidize agricultural producers as well as protect domestic markets from competition. They did, however, agree to the principle of keeping exporters from obtaining "more than equitable" percentage of world agricultural trade. This vague commitment did little to reduce subsidies. The thrust initiated during the Tokyo Round to address non-tariff barriers to agricultural trade was carried forward during the Uruguay Round where negotiations were expanded to include restricting the use of export subsidies and domestic production subsidies, converting quotas into tariffs, and improving market access.

Structure of the Agreement on Agriculture

The Agreement on Agriculture (AoA) consists of

(1) The text of the Agreement, which comprises twenty-five pages of articles and annexes covering market-access, domestic support, and export competition;

(2) Country schedules that include calculations from each country on their commitments; and

(3) A "modalities" section that specifies the reduction percentages and calculation percentages.

The implementation period of the Agreement is from 1 January 1995 to 31 December 2000. Table 1 outlines the main provisions of the Agreement on Agriculture.

Table 1. Main Provisions of the Agreement on Agriculture

Provision	Developed Countries	Developing Countries
Market Access (Base: 1986-1988)	▪ Reduction of new tariffs by 36% on average and minimum of 15% per tariff line ▪ Minimum access of 3% of domestic consumption rising to 5% by 2000 ▪ Safeguard Provisions	▪ Reduction of tariffs by 24% on average and minimum of 10% per tariff line ▪ Minimum access of 1% of domestic consumption rising to 4% by 2004 ▪ Safeguard Provisions
Export Competition (Base: 1986-1988)	▪ Reduction of export subsidies by 36% ▪ Reduction of subsidized export by 21% ▪ Due Restraint Clause	▪ Reduction of export subsidies by 24% ▪ Reduction of subsidized export by 14% Due Restraint Clause
Domestic Support (Base: 1986-1989)	▪ Reduction of total AMS by 20% ▪ Due Restraint Clause	▪ Reduction of total AMS by 13.3% ▪ Due Restraint Clause

Structure of WTO Agricultural Negotiations

Article XX of the AoA—*Continuation of the Reform Process*—mandates that Members enter into successive rounds of negotiations on agriculture. The negotiating agenda set-forth by the AoA will be based on three reform pillars that are part of the built-in agenda: (1) domestic support, (2) export competition, and (3) market access. In addition to the three reform pillars, negotiating proposals are calling for the inclusion of "non-trade concerns" (NTCs). NTCs refer to issues such as the social and environmental benefits of agricultural production, food security, biotechnology, and product and labor standards.

Many developing countries propose that the new Round be a single undertaking in which numerous issues are negotiated concurrently in order to maximize the opportunities for trade-off across issues and sectors, which, in turn, will enable liberalizing forces in both developed and developing countries to exert pressure on their governments for a liberalized trade environment.

However, it is cautioned that the new Round not contain too many new issue areas as this may constrain the ability of developing countries to implement meaningful changes.

Article XX of the Agreement on Agriculture also states that new negotiations shall take into account (1) special and differential (S&D) treatment for developing country members, and (2) other commitments that are necessary to achieve a fair and market-oriented agriculture trading system. These "other commitments" will likely include

- **Agriculture Export Marketing Boards.** Export marketing boards, commonly found in developing countries, have common characteristics that give them advantages in international trade. These include
  - — a lack of price transparency;
  - — government financial backing that can serve to insulate these agencies from financial risks other exporters may face;
  - — an ability to control procurement costs through maintaining monopsony control over purchases for domestic and export sales;
  - — an ability to price discriminate using cross-subsidization (either between domestic and export markets or between different buyers);
  - — and the ability to insulate producers from market prices through price-pooling schemes.

  These advantages cause trade distortions, create additional cost for producers, prompt predatory pricing practices that drive other exporters from the market, and keep more producers in business and more land in production than would otherwise be necessary. Agricultural negotiations that seek reductions in export subsidies, domestic subsidies, and tariffs will undoubtedly impact export marketing boards and their production decisions.

- **Export Credits.** Commonly found in developed countries, export credits are similar to export subsidies but lack any direct monetary transfer from a government to agricultural producer. The AoA recognizes that such measures could be used to circumvent liberalizing commitments. The AoA therefore calls for the development of internationally agreed-upon disciplines on export credits and similar measures.

CONTENT OF WTO AGRICULTURAL NEGOTIATIONS

Market Access

Measures applied at the border that restrict trade reduces the ability of agricultural producers to benefit from an increasingly open trading environment. The AoA set in motion the process of capping and reducing tariff levels, converting quotas into their tariff equivalents, and requiring that non-tariff barriers[2] (NTBs) on agricultural goods be converted to their tariff equivalents through a process known as "tariffication."[3]

[2] Included are quantitative restrictions, variable import levies, minimum import prices, discretionary import licensing, state trading, and voluntary export restraints among others.

[3] With the exception of rice in Japan and Korea, and dairy products in Switzerland, which have long-term commitments to be phased out.

Once these NTBs were converted to their tariff equivalents, countries were allowed to add them to the already established tariff levels. Unfortunately, many countries bound "ceiling" tariffs without properly calculating the tariff equivalent for individual commodities, which led to tariffs bindings that were much higher than the tariff equivalents of the NTBs they replaced[4].

AoA architects understood that as a result of tariffication, tariff peaks would make market access for agriculture products virtually impossible. As a result, members were required to provide certain levels of import opportunities through tariff-rate quotas (TRQs). TRQs placed a quantitative limit (quota) on imported agricultural goods that received a favorable tariff rate. Once that quota is filled, a higher tariff rate is applied.

Special safeguard measures (SSM), also know as Article 5 of the AoA, were designed to protect products that were subject to tariffication from surges in imports or large price declines. Members that have tariffied NTBs are authorized to invoke the SSM on agricultural products if (1) the import quantity rises above a predetermined trigger level[5]; or (2) the price level falls below a trigger level[6].

Despite these advances, market access barriers remain high, averaging over 40 percent and extending to tariff peaks of over 300 percent on particular agricultural products (see Table 2).

Table 2. Examples of Tariff Peaks on Agricultural Products in 2000

Canada	European Union
Butter = 299%	Sugar = 279%
Cheese = 246%	Dairy = 205%
	Beef = 80%

Source: WTO

Outlook for Negotiations

Major agricultural exporters and developed countries would like to see negotiations focus on the continuation of the tariff reductions agreed upon during the AoA, including significantly reducing tariff peaks and tariff escalation; expansion of TRQ systems, reducing the over quota tariff rates, and improving disciplines for administration of quotas; and creating greater transparency and accountability in state trading enterprises (STEs) practices[7]. Negotiations will likely utilize the following modalities for improving market access in agricultural products.

[4] A process commonly referred to as "dirty tariffication."

[5] The import quantity trigger level is the sum of the change in domestic component and 105-125 percent of the imports in the three preceding years.

[6] The price trigger is generally the average price during 1986-1988.

[7] State trading enterprises can be included under the purview of market access issues because they are used to control imports (as well as encourage exports). Many argue that STEs cause additional costs for producers, prompt predatory pricing practices that drive other exporters from particular markets, and keep more producers in business and more land in production than would be otherwise necessary. See also STEs in the Export Competition section of this paper.

AoA Established Base

Under one approach, the same base established during the AoA would be used for the next set of tariff cuts. Cutting tariffs an additional 36 percent would create a cumulative 72 percent cut on agricultural tariffs over the two reform periods. This approach may be easier than devising a new formula and may simplify negotiations as a reopening of the issue might cause controversy.

Critics of this approach point out that it lets countries use line item cuts to reduce tariffs on sensitive products by only 15 percent, while reducing tariffs on less sensitive products by more than 36 percent to maintain the unweighted average of 36 percent. Should this base approach be used, a country's ability to use line item cuts might need to be constrained by

- A line item minimum of perhaps 50 percent so that products that escaped the last round of tariff cuts would not escape again;
- Trade weighted tariff cuts; or
- By applying all cuts across the board, no exceptions.

Swiss Formula

Agricultural tariffs might also be reduced according to methodology used on industrial goods negotiations during the Tokyo Round. The Swiss Formula may be effectively applied to agricultural products by reducing tariffs by larger percentages for those products with higher tariffs.

Zero-for-Zero Approach

This approach would enable negotiators to completely eliminate tariffs on particular goods. Although trade would be expanded in certain competitive agricultural sectors (perhaps oilseeds and pig meat), more politically controversial sectors (sugar and dairy products) could possibly be exempt unless these sensitive products were included in a framework that disallowed long-term exclusions.

Domestic Support

The AoA established a process of curbing trade-distorting domestic subsidy policies (i.e., those subsidies that are tied to production). The rationale behind the GATT desire to eventually eliminate domestic support was the belief that subsidy policies increase domestic prices above world price levels and to maintain these price levels meant restricting market access on price-competitive imports. Consequently, the overproduction generated by high domestic prices required export subsidies to sell on the world market.

On the other hand, domestic policymakers must be able to determine when domestic subsidies are economically legitimate and necessary to offset market failures, increase production through crop insurance, and maintain provisions of foodstuffs at subsidized prices. These arguments were codified in the AoA negotiations by distinguishing between trade distorting subsidies (generally those linked to the production of a specific crop) from minimally trade distorting subsidies (research and development, environmental protection). Exemptions to domestic support to the agriculture sector were set out in Article 6 and Article 2.

Aggregate Measure of Support

The Aggregate Measure of Support (AMS) was included in the AoA as an index that measures the monetary value of government support to the agricultural sector. As defined in the AoA, the AMS includes both direct and indirect government supports to the agriculture sector if they are judged to create distortions in the market. Many U.S. and EU direct payments, however, were granted exemptions under the Blair House Accord in order to get the necessary support for the AoA. The exemptions from the reduction commitments are not included in the calculation of AMS and therefore are not subject to reduction commitments. These exemptions are explained in two places in the AoA—Article 6 and Annex 2.

- ***Article 6 Exemptions ("Blue Box").*** These exemptions cover direct payments to farmers who restrict their output through production limiting programs, product-specific domestic support[8], non-specific domestic support[9], support to producers to discourage the growth of illicit narcotic crops in developing countries, investment subsidies generally available to agriculture in developing countries, and input subsidies generally available to low income or resource-poor producers in developing countries.
- ***Annex 2 Exemptions ("Green Box").*** These exemptions cover general services including research and development, pest and disease control, training, extension and advisory services, inspection services, marketing and promotional services, and infrastructure services; public stock-holding for food security purposes; domestic food aid programs; payments for environmental programs; payment for relief from natural disasters; structural adjustment assistance through producer retirement programs; payment under regional assistance programs; and certain types of direct payments to producers including decoupled income support, financial participation in income insurance and income safety net programs.

In addition to the blue and green box provisions, additional focus areas contained in the domestic support reform agenda will be highlighted during the negotiations. These include the following:

- ***Amber Box.*** This includes all types of government support that are not included in either the "Blue" or "Green Box", those which are considered to be production- and trade-distorting and those that are measured by the AMS index.
- ***De Minimis Provision.*** This provision allows countries to maintain certain levels of AMS given that they are within the 1992 support levels. For developed countries, this level can be up to 5 percent of the value of production for individual products (product specific support) and 5 percent of the value of a country's total agricultural production (non-product specific support). For developing countries, support in both categories can be up to 10 percent.
- ***Article 13— Due Restraint Provision ("Peace Clause").*** This provision sets a nine-year period during which domestic support policies (found in the "Blue Box") and export

[8] Cannot exceed 5 percent of the total value of the production of that product in the year under consideration (10 percent for developing countries).

[9] Cannot exceed 5 percent of the total agricultural production in a country (10 percent for developing countries).

subsidies are exempt from GATT challenges. These exemptions will remain in force until the end of 2003. "Green Box" measures are permitted under all circumstances and are not subject to the Due Restraint Provision.

Outlook for Negotiations

Throughout the agricultural negotiations, it is likely that more progress will need to be made on further reducing allowable deductions from total AMS calculations. Efforts most likely will involve the following:

- ***Removing the "Blue Box."*** As the United States and EU are gradually reforming their domestic support policies, the political necessity of the provisions outlined in the "Blue Box" has diminished. Therefore developed country negotiators might be willing to close the "Blue Box".
- ***Tightening the "Green Box" criteria*** to reduce the ability of governments to continue using output-increasing subsidies that might find their way into the "Green Box" as countries convert more of their policy instruments to those listed in the "Green Box". As this occurs, countries will attempt to re-negotiate criteria for inclusions of policy instrument within the "Green Box."
- ***Making the AMS specific to individual commodities.*** This would influence greater reductions on domestic support for individual commodities that have historically enjoyed high levels of support. The notion of aggregating the AMS over all commodities was introduced during the Blair House Accord in order to weaken the impact of required AMS reductions.

The expiry of the Peace Clause in 2003, which will enable countries to take countervailing action on subsidies and placing countervailing duties (CVDs) on products found to infringe on GATT disciplines, will place additional pressure on negotiators to conclude negotiations by that date. The promise to renew the Peace Clause may also give those countries that are reluctant to continue reforms an added incentive to conclude negotiations.

Export Competition (Export Subsidies and Credits)

Export subsidies are viewed as unfair commercial tools that create market distortions, waste government budgets, slow the process of reform in domestic industries, and encourage harmful environmental practices. Export subsides also cause other exporters to face stiffer competition as the prices of their goods are driven down. Therefore, countries that subsidize exports take markets away from more efficient, low cost producers.

As a result, the AoA introduced prohibitions on the introduction of new export subsidies and more clearly defined what constitutes an export subsidy[10]. In addition, the AoA scheduled

[10] These include subsidies contingent on export performance; sale or export of products by governments at prices lower than those of the like products in the domestic market; payments on the export of a product that are financed by virtue of governmental action, either through pubic account or through a levy on the product; subsidies to reduce the cost of marketing, including handling, upgrading, processing and international transport and freight; provision of internal transport and freight for export shipments on terms more favorable than those for domestic shipments; and subsidies contingent on the incorporation of the product into export products. Developing countries are exempt from (i) payment to reduce the cost of marketing, including handling, upgrading, processing and international transport and freight; and (ii)

reductions in both the expenditure on export subsidies and the quantity of exports that can benefit from subsidies[11]. The new round of negotiations will continue the process of placing ceilings and further reducing the value and quantity of export subsidies and will address the following topics:

- ***Push for total elimination of export subsidies and credits.*** Since government expenditures used to subsidize exports can be used more efficiently in other sectors and since subsidies are known to greatly distort markets, there will be a concerted effort to eliminate all forms of export subsidies and credits.
- ***Removal of the monopoly status of single-desk selling agencies.*** These export divisions of the government-run STEs have common characteristics that give them advantages in international trade that cause trade distortions[12] and create additional cost for producers, prompt predatory pricing practices that drive other exporters out of the market, and keep more producers in business and more land in production than would otherwise be necessary. As a result, countries will seek to:
  - — Subject the behavior of such entities to multilateral disciplines such as nondiscrimination and transparency;
  - — Negotiate national treatment and market access commitments on a case-by-case basis; and
  - — Remove the monopoly status single-desk exporting agencies currently enjoy.
- ***Addressing export taxes and export restraints.*** Restrictions on exports in times of high prices distort trade as much as subsidies that are put in place when prices are weak. This conflict enables exporters to withhold agricultural products from markets in times of shortages, yet expect importers to open their markets in times of abundance. Since export taxes are not presently under the scope of WTO rules, putting the issue on the agenda will likely occur.

Outlook for Negotiations

A negotiation approach similar to that taken on market access is likely to occur. This would imply limiting expenditures on subsidies by another 36 percent, creating a total reduction on expenditures of 72 percent over the two reform periods. Following this approach for quantity restrictions would imply removing 40 percent of the volume of subsidized exports over the two periods of reform.

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provision of internal transport and freight for export shipments on terms more favorable than those for domestic shipments.

[11] Developed countries - 36 percent reduction of budget expenditures on export subsidies and 21 percent reduction of quantities to be implemented before the end of the year 2000; Developing countries - 24 percent and 14 percent, respectively, to be implemented before the end of 2004; LDCs are exempt from the commitment to reduce their export subsidy.

[12] These include: a lack of price transparency; government financial backing that can serve to insulate these agencies from financial risks other exporters may face; an ability to control procurement costs through maintaining monopsony control over purchases for domestic and export sales; an ability to price discriminate using cross-subsidization (either between domestic and export markets or between different buyers); and the ability to insulate producers from market prices through price-pooling schemes.

Non-trade concerns

As traditional barriers to trade decline, other issues begin to emerge. These so-called "non-trade concerns" or NTCs, although arguably not germane to the WTO agricultural negotiations, are issues of importance and ones that can help negotiations come to a successful completion. NTCs refer to issues such as the social and environmental benefits of agricultural production, food security, biotechnology, and product and labor standards.

Although many of the NTCs do not fall traditionally under the scope of agriculture, many countries argue that it would be universally beneficial to include these issues into a single undertaking round of negotiations that deal comprehensively with NTCs[13].

In general, Members agreed that most countries have NTCs. However, there was considerable disagreement as to how each should be addressed in the context of trade negotiations. Specifically, the Cairns Group argued that green box measures (Annex 2 of the AoA) -- those which have "no, or at most minimal, trade distorting effects or effect on production..." -- are sufficient to address non-trade concerns. Other countries, Norway for example, counter-argued that some countries require trade-distorting subsidies to adequately address their non-trade concerns. Also at issue was that the language of 'non-trade concerns' should be disaggregated to better capture specialized cases. For example, Argentina argued that Japan, which is a net-food importer, should not have access to 'food security' related subsidies, since it has a substantial enough foreign exchange to pay for food imports.

Finally, there was debate as to whether NTCs could be addressed adequately by a single set of rules governing all Members, or whether NTCs are better suited to regionally distinct disciplines.

Bioengineering/Biotechnology

Genetically modified agricultural products, though they hold great promise for increasing agricultural productivity, raise serious concerns about the possible consequences on human health and the preservation of biodiversity. Coupled with this newly emerging but hotly debated issue will be the role the Trade Related Intellectual Property Rights Agreement (TRIPS) will play in agriculture.

Environmental and Labor Standards

Since agriculture's contribution to the environment is mostly negative, there have been attempts by developed countries to "export" environmental and social standards following the polluter-pays principle. In addition, lack of adherence to internationally recognized core labor rights can lead to trade disputes in agriculture as countries that respect these core labor rights feel that they are unfairly disadvantaged.

Measures to ensure food security

Measures ensuring that further agricultural reform do not adversely affect the ability of developing countries to meet their food import needs is an issue of concern during the negotiations. Specifically, the net food importers are concerned that with the liberalization of

[13] Members have submitted a proposal on NTCs. The proposal is itself comprised of six specific discussion papers, each detailing some aspect of NTCs, all of which were presented at a NTCs and agriculture conference in Norway this past summer.

agriculture and the reductions on agricultural export subsidies, agricultural prices on the world market would rise. This would potentially impact their low-income populations and ultimately slow development. Therefore effective measure to ensure food security in developing countries, particularly in net food importing developing countries (NFIDCs) and the least developed countries (LDCs), are of primary concern.

Product Standards and food safety

Although the demand for higher quality and safer food products rises with per capita incomes, the perceptions about standards and production processing methods[14] (PPMs) for achieving satisfactory levels of food safety differ greatly. Issues such as beef hormones, irradiated food, animal welfare and cheese made from unpasturized milk have increasingly been disputed. Members typically utilize the Sanitary and Phytosanitary (SPS) Agreement & the Technical Barriers to Trade (TBT) Agreement to help ensure food safety.[15]

DEVELOPING COUNTRY PERSPECTIVE

It is difficult to group the developing countries together for a unified stance during this round of negotiations. Developing countries can be categorized as those that are major agricultural exporters, those that are net food importers, and those that grow specialized crops (tropical, etc.). Developing countries are generally interested in a comprehensive round of negotiations. They favor dealing with built-in Agenda items and keeping non-trade concerns out of this round of agricultural negotiations (except perhaps measures to ensure food security). In addition to pushing for expanding market access for developed country markets and reducing the levels of subsidies in developed countries, it is likely that developing countries will also push for the following action items:

Implementation of AoA Commitments

Developing countries still have not implemented many of their AoA commitments due to lack of technical and financial assistance to establish the necessary institutions to deal with relevant matters. Therefore, developing countries are stating they do not want to enter into any new negotiations or make additional commitments until their previous commitments have been implemented.

AMS Calculations

Developing countries believe that binding of subsidies through an aggregate calculation of AMS and subsequent reduction of AMS levels[16] during the AoA did not fairly account for the huge disparity in the subsidy levels of developed and developing countries. Comparatively, developed

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[14] This includes the U.S. ban on imports of tuna that were deemed caught in nets unfriendly to dolphins and shrimp that were caught in nets that were unfriendly to endangered sea turtles.

[15] The SPS Agreement was reviewed in 1999 and the TBT Agreement will be reviewed during 2000, increasing the likelihood both issues will be part of a larger package of a Comprehensive Round of Negotiations.

[16] Reduction of total AMS by 20 percent and 13.3 percent for developed and developing countries, respectively.

countries are still able to heavily subsidize agriculture, while developing countries are allowed only minimal subsidies. Developing countries will most likely negotiate to be allowed to use the same policies up to the same levels of subsidy to develop their agriculture as developed countries are allowed.

Special and Differential Treatment (S&D)

Found in GATT Article XXXVI and known as the "Enabling Clause", this feature of the WTO allows for less stringent disciplines to be placed on developing countries when reforming their trade policies. S&D treatment allows developing countries to have longer implementation periods and reduced levels of commitments due to a lack of institutional capacity to deal with complex issues. Developing countries will push for continued S&D treatment while the developed countries will push for a clearer definition of areas in which developing countries receive S&D treatment.

Technical and Financial Assistance

In order to achieve meaningful results from the WTO agricultural negotiations, technical assistance and institutional capacity building assistance will be needed for developing countries if they are to implement desired reforms. In addition, such assistance is vital if LDCs are to comply with the SPS Agreement and produce at the standards expected in the markets of developed countries. At the same time, developing countries will need to ensure that any new commitments are implementable even with technical and financial assistance.

Measures to ensure development objectives are realized

Developing countries will push for provisions that enable them to address their legitimate and varied needs, including agricultural and rural development, food security, and subsistence and small scale farming for the development of domestic food production. In particular, the NFIDCs are concerned that with the liberalization of agriculture and the reductions on agricultural export subsidies, agricultural prices on the world market would rise. This would potentially impact their low-income populations and ultimately slow development. Therefore effective measures to ensure food security in developing countries, particularly in NFIDCs and the LDCs, are of primary concern.

MAJOR PARTICIPANTS AND POSITIONS

The Cairns Group[17]

This group of non-subsidizing, agricultural exporting countries was formed in 1986 to ensure agriculture liberalization in the Uruguay Round proceed expeditiously. They are again united and lead the effort for additional reforms during this round of agricultural negotiations. The reforms they are pushing for include: early and total elimination of export subsidies; regulation of export credits; deep cuts in tariffs; removal of NTBs; increase of trade volume under TRQs and reducing

[17] The Cairns Group currently consists of Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay.

the over-quota tariff rates; elimination of trade distorting domestic support measures; tightening of SPS rules; removal of the "blue box"; tightening of "green box" criteria to ensure that they are truly non-trade distorting; phasing out of the SSM; and reformulation of the rules on STEs. The Cairns Group also recognizes that developing countries, including LDCs and NFIDCs have particular non-trade concerns including rural development, poverty alleviation, subsistence and small scale farming, and food security concerns. The Cairns Group will therefore be committed to ensuring that S&D provisions enable developing countries to have enough flexibility to pursue their development needs. The Cairns Group will support enhancing green box provisions for developing countries, differentiating AMS formula and commitments for developing countries, and enhanced technical assistance to developing countries.

The European Union

Making the EU's Common Agricultural Policy (CAP) conform to WTO's requirements for market access, domestic support and export subsidies will be a major challenge for the EU during the WTO agricultural negotiations. If negotiations on market access are to succeed, cuts in CAP price supports would be needed for the EU to accept further tariff reductions (as lower priced imports would undermine domestic price support measures). Although export subsidies are likely to face major obstacles, should Agenda 2000[18] reforms be implemented, EU negotiators could agree more easily to further cuts of these subsidies during the WTO agricultural negotiations provided all forms of support are treated on common footing. For domestic support, the EU is likely to insist on the need to maintain the "Blue Box" provisions as the Agenda 2000 maintains "Blue Box" subsidies. Yet another issue of concern to the EU is its ability to maintain SPS measures on genetically modified organisms (GMOs) that the EU feels might potentially cause harm to humans. The EU believes that existing WTO provisions regarding food aid should be revised and strengthened in order to prevent abuses of food aid as a mechanism for the disposal of surpluses. Regarding STEs, the EU believes that WTO rules and regulations applying to STEs should be strengthened in order to increase transparency of STE activities and in order to ensure strict notification requirements for indirect subsidization of exports. The EU will likely use the WTO agricultural negotiations to arrive at a more precise definition of how much trade can legally be excluded from regional free-trade areas (RTAs) as they are currently in negotiations to form RTAs (MERCOSUR, ASEAN and South Africa). And finally, the EU is advancing a strong position to help ensure that trade does not undermine efforts to improve the protection of the welfare of animals. In particular, the EU maintains that consumers increasingly want to be informed of how farm animals are kept, transported and slaughtered. Therefor the EU will likely push for the development of multilateral agreements dealing with the protection of animal welfare and appropriate labeling (voluntary or compulsory under Article 2.2 of the TBT Agreement). And if compensation to producers to help them achieve these higher standards is necessary, the EU wants to require that for any such compensation to be acceptable, it would have to have no or at most minimal effects on trade and production.

[18] The EU Commissioner for Agriculture Ray MacSharry's proposal for CAP reform. Under this proposal, price supports for cereals were going to be cut by 20 percent, for beef by 20 percent, and for milk by 15 percent.

Net Food Importing Developing Countries (NFIDCs)

NFIDCs, along with other developing countries with a significant agricultural sector that produce and also import agricultural products, will form an important lobby during the WTO agricultural negotiations. This group will: seek reductions in export subsidies and trade distorting domestic supports; an increase of trade volume under TRQs and reducing the over-quota tariff rates; ensure they receive the necessary technical and financial assistance for developing their agricultural sectors and institutions; attempt to safeguard those aspects of domestic support (and create new ones where necessary) which permit them to extend assistance to various types of poor farmers as well as maintain programs of assistance and food security to the poor, rural farmers[19]; oppose including labor and environment standards in the new round; and secure necessary food aid and concessionary finance.

Table 3 - Examples of Net Food Importing Developing Countries

Examples of NFIDCs	% of Import Bill Spent on Food Items
Egypt	28.4
Mauritania	29.6
Equatorial Guinea	36.9
Congo	26.5
Algeria	29.5
Benin	26.3
Grenada	28.0
Jordan	20.8
Samoa	27.1
Senegal	28.7
Somalia	32.5

Source: UNCTAD (1997a)

Asia

The diversity of the countries that make up this region does not lend itself to easy categorization. Four main divisions differentiate Asian countries - (1) Non-WTO members, which are considerable agricultural producers (China, Taiwan, and Vietnam) and are members of APEC, will attempt to influence WTO negotiations through these regional groupings. They will seek the traditional market access and export subsidy reductions, but will likely oppose any significant changes in domestic support or STEs; (2) Japan - which maintains a highly protected agricultural sector with tight import restrictions on many products and high levels of domestic support, will likely oppose any changes in domestic supports and market access commitments. At the same time, Japan (and South Korea) might negotiate to maintain distribution systems that impede market access; (3) Indonesia, Malaysia, the Philippines, and Thailand, which are members of the Cairns Group, will adhere to the strategy addressed in the Cairns Group Section; and (4) The low income, densely populated, food importing countries of South Asia (India and Pakistan) which

[19] Many point to the "unfairness" of the AoA as it still permits greater support levels for developed countries—which had during the base years given a great deal of assistance to their agricultural sectors—as opposed to developing countries which had only minimal support levels during the base years.

discourage both exports and imports of agricultural products, are likely to oppose any significant changes to the AoA.

United States[20]

The U.S. negotiating agenda will focus on expanding market access opportunities, disciplining domestic support, addressing new challenges in the agricultural sector (including NTCs), ensuring adequate food supplies to the developing countries. The U.S. would like to see negotiations conclude before 2003 (before the expiry of the Peace Clause) with the ability to implement any agreements reached prior to that date. The U.S. will likely seek to incorporate all issue areas discussed in this paper into a comprehensive and single-undertaking round of negotiations. And finally the U.S. negotiating agenda will be shaped by domestic interests.

Expanding Market Access Opportunities

Creating greater certainty and transparency in tariff regimes through lowering bound tariff rates and reducing the disparity between bound tariff rates and applied tariff rates (eliminating "tariff peaks"); increasing quotas and reducing tariff rates for over quota limits; imposing stricter disciplines on the import activities of STEs; and limiting the use of the special agricultural safeguard mechanism.

Disciplining Domestic Support

Setting ambitious targets for the reduction of trade-distorting domestic support; subjecting all production-related support to GATT disciplines (elimination of the "blue box"); strengthening the parameters of "green box" provisions to ensure a complete separation between allowable subsidies and those that are production related.

Disciplining Export Subsidies

Eliminating all remaining export subsidies and strengthening rules on measures that can circumvent subsidy disciplines (rules by STEs and export taxes).

New Challenges to the Agricultural Sector

Enhancing the application of the SPS and TBT Agreements in order to bring more predictability to measures affecting agricultural products while protecting the health and the environment; addressing market access issues for trade in biotechnology products.

Food Aid

Ensuring that further reform does not adversely affect the ability of developing countries to meet their food import needs.

[20] For more detailed U.S. objectives, see Table 1.

Domestic Interests

U.S. agricultural interests have been vociferous in rejecting the idea of separate agricultural negotiations for fear that negotiations would fail if concessions in other areas were not allowed. U.S agricultural interests remain united on the issues of complete elimination of export subsidies, reduction of tariff peaks, and the need to reformulate rules governing STEs. U.S. agricultural interests are split on the issue of TRQs - export interests would like to see the TRQ system enlarged and the over-quota tariffs reduced while import sensitive industries (sugar, peanuts, and dairy) might wield enough political power to maintain their domestic support programs. Finally, U.S. agricultural interests would like to work on the issue of Genetically Modified Organisms (GMOs) to ensure no barriers are erected that would block market access for these products.

FINAL CONSIDERATIONS AND IMPLICATIONS FOR INDONESIA

Building on the progress made during the Uruguay Round, trade negotiators seek further commitments on market access, domestic support subsidies and export subsidies in order to

- ***Improve economic efficiency and productivity by allowing countries to specialize in areas of comparative advantage.*** Due to increases in competitiveness and economic efficiency in the agricultural sector, countries will be able to focus more intensively on areas in which they have a comparative advantage. Rapid advances as a result of trade liberalization will facilitate the flow of resources out of low-paying agrarian jobs and into other higher-paying commercial sectors.
- ***Improve productivity and income of farmers.*** At the same time, agriculture trade liberalization can help improve the productivity and income of farmers through growing crops that are more suited to the climatic conditions of the region and crops that are more competitive in world markets.
- ***Reduce waste associated with overproduction.*** Agricultural liberalization will lead to a reduction of detrimental environmental practices by eliminating subsidies that encourage farmers to keep more land in production than would be otherwise necessary. More land in production than is necessary requires additional chemicals, pesticides and other dangerous substances.
- ***Utilize savings from subsidy programs on higher priority public expenditures.*** Government expenditures used to subsidize exports can be more efficiently used in other sectors of the economy with more pressing development needs like education, health, and infrastructure development.

Table 5. Selected Country Comments on Agriculture Negotiations

Country	Export Subsidies	Domestic Support	Market Access	STEs	Non-trade Concerns	LDCs/DCs	Framework
Argentina	Reduce or eliminate export subsidies	Reduce amber and blue box subsidies	Broad tariff cuts are needed. Eliminate tariff peaks		Biotech - Preserve sound science. Reforms may be needed to preserve SPS gains already won Animal welfare – does not agree with EU	Continue S&D for LDCs and DCs	End talks by 2003. Agreements should be a package, not separate. Avoid non-trade concerns.
Australia	Eliminate all export subsidies	Reduce domestic support for all products. Eliminate subsidies that promote fishery over-capacity.	Put raw and finished agricultural products on same footing as other sectors. Deep tariff cuts, including tariff peaks. Liberalize TRQs, and impose rule on their operation.			Continue S&D for LDCs and DCs. Eliminate export controls that harm importing LDCs and DCs.	
Brazil	Eliminate all export subsidies.	Reduce domestic support levels.	Deep tariff cuts, including peaks. Liberalize TRQs, and impose rules on their operation.				
Bulgaria						Allow transition and post-transition countries to use subsidies.	
Cairns Group	Eliminate all export subsidies.	Reduce trade-distorting domestic subsidies.	Increase market access by lowering tariffs and other trade barriers. Treat agriculture more like industrial goods and services; reject agriculture specific exemptions.		Assess health and safety measures, including for biotech and technical production/processing rules, based on sound science.	Address special needs of DCs, including barriers to their exports, food security, developing rural areas, and use of subsidies by DCs to protect their markets.	Conclude negotiations by 2003.
Canada	Eliminate export subsidies, but do not ban orderly export marketing or single desk exporting.	Narrow amber box and blue box production subsidies, review scope of green box production	Greater market access for raw and finished products. Reduce or eliminate ordinary tariffs. Negotiate zero-for-zero deals. Reduce tariff	Willing to discuss STEs, including single-desk marketing, but any rules created must apply to	Create WTO working party on biotech, but do not reopen SPS rules.	Apply WTO rules to all countries presumably including developing countries. Establish rules	

Country	Export Subsidies	Domestic Support	Market Access	STEs	Non-trade Concerns	LDCs/DCs	Framework
		subsidies. Eliminate "peace clause" barring dispute settlement for subsidies causing harm in third markets.	disparities for competing products. Liberalize TRQs and impose rules on their operation.	all entities with market power, whether public or private.		governing export restrictions n and export taxes.	
Czech Rep.			Eliminate disparities in tariffs and other conditions.			Allow transition/post-transition countries to use subsidies.	
EU	Allow negotiations to proceed on export subsidy reduction or elimination, but such talks must include a broad array of practices (including export credits, single-desk exporters, and food aid).	Reduce production support levels in the amber, blue, and green boxes.	Establish improved rules governing the operation of TRQs.		Confirm that science-based measures are permitted to achieve level of safety adopted by countries (including in biotech); adopt rules/standards regarding animal welfare.	Allow for continued preference to LDCs and DCs.	Avoid major changes to established agriculture rules. Recognize that support for issues such as sustaining the environment and developing rural areas are not barred subsidies.
Hungary			Eliminate disparities in tariffs and other conditions.			Allow transition and post-transition countries to use subsidies.	
Iceland		Eliminate subsidies that promote fishery over-capacity.					

Country	Export Subsidies	Domestic Support	Market Access	STEs	Non-trade Concerns	LDCs/DCs	Framework
India	Formulate disciplines for the accelerated elimination of export subsidization programs. Export taxes – have serious concerns regarding the prohibition of export taxes.		Sectoral liberalization (zero-for-zero initiatives) cannot be supported				
Indonesia	Eliminate all export subsidies.	Reduce trade-distorting domestic subsidies.	Increase market access by lowering tariffs and other trade barriers. Treat agriculture more like industrial goods and services; reduce tariff peaks and tariff escalation; increase quotas and improve disciplines for the administration of quotas.		Assess health and safety measures, including for biotech and technical production/processing rules, based on sound science.	Address special needs of DCs, including barriers to their exports, food security, developing rural areas, and use of subsidies by DCs to protect their markets.	Conclude negotiations by 2003.
Japan	Establish stronger rules governing export subsidies, as well as export controls.	Domestic support should be allowed to maintain a secure food supply, Maintain the amber, blue, and green boxes.	Enthusiasm for enhanced market access should be tempered by need of some countries to maintain an adequate food supply. This should be allowed to be achieved through domestic support and tariffs. Items need to be assess on an item-by-item basis as it is not rational to treat different products under a single rule of operation.	The role of STEs should be considered, especially the role of STEs in export trading.	Countries should discuss treatment of genetically-modified organisms.	Special consideration should be given to LDCs and DCs, including food security.	Issues included in agriculture agreement should be handled by one committee; new issues by another. Talks should take into account the multifunctionality of agriculture, as well as the need of some countries to secure their food supply. Talks should also address trade in forestry and fishery products.
Latvia						Allow transition and post-transition countries to use subsidies.	

Country	Export Subsidies	Domestic Support	Market Access	STEs	Non-trade Concerns	LDCs/DCs	Framework
New Zealand	Export credits should be subsumed within controls on export subsidies.	Eliminate subsidies that promote fishery over - capacity.					
Malaysia	Eliminate all export subsidies.	Reduce trade-distorting domestic subsidies.	Increase market access by lowering tariffs and other trade barriers. Treat agriculture more like industrial goods and services; reduce tariff peaks and tariff escalation; increase quotas and improve disciplines for the administration of quotas.		Assess health and safety measures, including for biotech and technical production/processing rules, based on sound science.	Address special needs of DCs, including barriers to their exports, food security, developing rural areas, and use of subsidies by DCs to protect their markets.	Conclude negotiations by 2003.
Norway		Eliminate subsidies that promote fishery over - capacity.					Talks should be finished in a relatively short time frame. All aspects should take place in one committee.
Peru		Eliminate subsidies that promote fishery over - capacity.					
Philippines	Complete elimination of export subsidies (following the Cairns Group Proposal)	Eliminate subsidies that promote fishery over - capacity.	Substantially reduce or eliminate altogether tariffs and ensure market access opportunities for all products			Supports S&D treatment to enhance developing country access to technical assistance and capacity building as longer and gradual implementation time frames are not sufficient.	

Country	Export Subsidies	Domestic Support	Market Access	STEs	Non-trade Concerns	LDCs/DCs	Framework
Slovakia			Eliminate disparities in tariffs and other trading conditions.			Allow transition and post-transition countries to use subsidies.	
Slovenia						Allow transition and post-transition countries to use subsidies.	
Switzerland	Reduce export subsidies.	Reduce domestic support. Enlarge the green box category of subsidies.	Improve market access for imported products.		Consumers need to be fully informed about the products they are offered.	Food security, meeting the needs of a scattered population, and protecting the environment are issues to be addressed.	Talks should take into account the multi-functionality of agriculture.
Thailand	Immediate elimination of all forms of export subsidies by developed countries.	Domestic production capacity must be helped to become more competitive rather than destroyed on the basis of non-competitiveness.	Correction and prevention of trade distorting measures would benefit both developing and developed countries		Ready to address non-trade concerns in the course of the negotiations.	Will support S&D for developing countries as an integral part of the negotiations	Reach overall agreement by the end of 2002 and reach agreement on basic modalities at the midterm of negotiation in 2001
United States	Eliminate export subsidies, clarify current subsidy anti-circumvention rules and create new additional rules. Export taxes – prohibit the use of export taxes, including differential export taxes, for competitive advantage or supply management purposes	Reduce trade-distorting domestic support; ensure that production-related support is subject to disciplines; preserve current criteria for green box subsidies; eliminate category of blue box subsidies and treat them as amber box subsidies; eliminate subsidies that	Maximize market access by lowering tariffs and other barriers as well as through a more uniform structure of tariff bindings; reduce disparity between applied and bound tariffs; liberalize tariff rate quotas (TRQs) and impose rules on their operation, especially with regard to burdensome licensing regimes.	enhance rules governing activities of STEs to prevent price undercutting and cross-subsidizaion. End exclusive export rights to ensure private sector competition. Establish WTO requirements for notifying acquisition	recognize trade in agricultural biotech products be based on transparent, predictable, and timely processes; recognize that biotech is covered by existing disciplines.	Improve market access to benefit LDCs. Terminate use of export taxes that distort trade. Ongoing technical assistance Create additional criteria for essential exempt support measures	Each member should table proposal on modalities in January 2000, with a comprehensive schedule to follow. Allow non-governmental labor and environmental groups to participate. Adopt advance tariff liberalization in certain sectors, but not clear if this is to be binding before

Country	Export Subsidies	Domestic Support	Market Access	STEs	Non-trade Concerns	LDCs/DCs	Framework
	Export Credit Programs – conduct negotiations in the OECD	promote fishery-over capacity.		costs, export procing and other sales info. Eliminate the use of government funds or guarantees to support or ensure the financial viability of single desk exporters.			agriculture negotiations are completed.
Uruguay	Eliminate all export subsidies. In the interim, strengthen anti-circumvention rules.	Reduce domestic support for all products. Eliminate or reduce blue box subsidies. Reexamine green box rules to prevent trade distorting practices.	Deep tariff cuts are needed, including the elimination of tariff peaks. Liberalize TRQs, and impose rules on their operation.			Avoid longer implementation periods, but provide greater market access for products from LDCs and DCs.	

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